

Korean Restaurant Business Plan in Taiwan

By

KAI WEI KEVIN CHEN

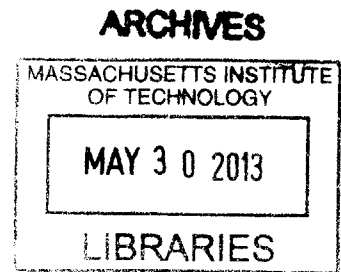
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ABSTRACT

Taiwan's food and beverage business has been one of the main drivers of the country's economic growth for the past several years. As Taiwan becomes more prosperous and grows beyond the traditional OEM/ODM businesses, citizens start to value eating as an important part of everyday lifestyles. Many restaurant brands have captured the trend and have expanded very successfully both in Taiwan and other parts of the world. Specifically, local cuisines as well as cuisines from Japan, Italy, France, and the US have exploded in popularity. Interestingly, Korean cuisine has been lackluster in Taiwan, despite the rise of Korean pop culture in general and the proximity of the two countries. My research will focus on the food and beverage industry in Taiwan and the existing opportunities to start a Korean restaurant business.

The study includes an overall industry analysis of the food and beverage sector in Taiwan, from the angle of competitive landscape, customer preferences to industry developments and trends. The study also includes my personal business aspirations and strategies that I will take given the food and beverage environment in Taiwan.

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I would like to thank my thesis advisor Pai-Ling Yin for her willingness to advise and support my business plan, even though it is not a typical technology or financial industry related thesis that are far more common in MIT Sloan. I would also like to thank my Tsinghua University classmate and good friend Pious Jung for the incredible support on introducing me to CJ Corporation and CJ Foodville, helping me understand their business models and presenting the opportunities to do business together. I would also want to thank good friend Titan Huang and any others who have helped in coaching me on the many intricacies of the food and beverages industries in Taiwan.

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Disclaimer:

I have put together this original business plan based on available information I have researched and gathered and careful observation over the years. All assumptions applied in the analysis will be stated clearly. Food & Beverage (“F&B”) businesses’ definition here includes any dine-in, takeout and delivery businesses, as well as street food (“little eats”), food trucks, noodle stands, catering, and all alcohol serving and non-alcohol serving shops.

I. Understanding Taiwanese Market and Competitive Landscape:

Market size and growth in general Taiwan restaurant business:

Taiwan has an approximate population size of 23.2 million as of 2012. Taipei city, the capital city, has around 2.6 million people. The entire Taipei metropolitan area, which includes New Taipei and Keelung, has an estimated population of 6.9 million. (The city New Taipei was newly incorporated in the past couple years and historically was called Taipei County. Geographically, New Taipei surrounds the overall Taipei City, and was changed into the new name for government subsidy purposes). Generally, Taiwan is divided into five regions of North, Central, South, East, and outer islands. The North region, which includes Taipei metropolitan area and other smaller cities in the northern part of the island, is the most populated region with 46.3% of Taiwan’s total population¹. Not surprisingly, as of 2010, the North region, led by Taipei, has the most F&B operating stores, followed by South, Central then finally East. The North region has become more and more populated over the years while the F&B competition intensifies.

Exhibit 1: 2010 F&B Operating Stores Geographic Distribution

Region	%
North	66.85
-Taipei City	36.03
-New Taipei	15.87
-Other Cities in North	14.95
Central	14.91
South	17.28
-Kaohsiung	9.42
-Other Cities in South	7.86
East & Outer Islands	0.96
Total	100.00%

Source: Ministry of Economic Affairs R.O.C Statistics Bureau 2011

F&B businesses in Taiwan have experienced steady growth over the past five years with particular strong growth in the last two years. In 2011, total F&B revenue was NT\$372.1 billion (~US\$12.4 billion),

¹ 2011 行政院主計處, Directorate General of Budget, Accounting and Statistics, Executive Yuan ROC Taiwan

representing a 7.94% growth from 2010, while total F&B revenue was NT\$321.8 billion (~US\$10.7 billion) in 2009, representing a 0.04% growth from 2008. The particular strong growth in 2010 and 2011 was driven by signing of ECFA with China, allowance of China PRC citizens visiting Taiwan via tour, government initiatives on branding Taiwan coming into effect (political party change in 2008), and increase in average number of times a consumer dine out and the money spent each time. Food business in F&B, compared to other sub sectors, experienced the strongest revenue growth of 8.6% in 2011 compared to 2010, and makes up 85% of the entire F&B revenue. Please refer to Exhibit 2 below for year on year changes over the past three years. "Other F&B" refers to nontraditional F&B businesses such as caterings for various events. Total revenue in Exhibit 2b is converted at an exchange rate of 1USD: 30NTD.

Exhibit 2a: F&B Revenue (NT\$ billion) and Growth

	2009		2010		2011	
	Revenue	% Growth	Revenue	% Growth	Revenue	% Growth
Food	271.7	0.15	291.6	7.33	316.7	8.60
Beverage	35.8	-0.79	37.9	5.99	39.7	4.85
Other F&B	14.3	0.02	15.2	6.31	15.7	3.11
F&B Total	321.8	0.04	344.7	7.14	372.1	7.94

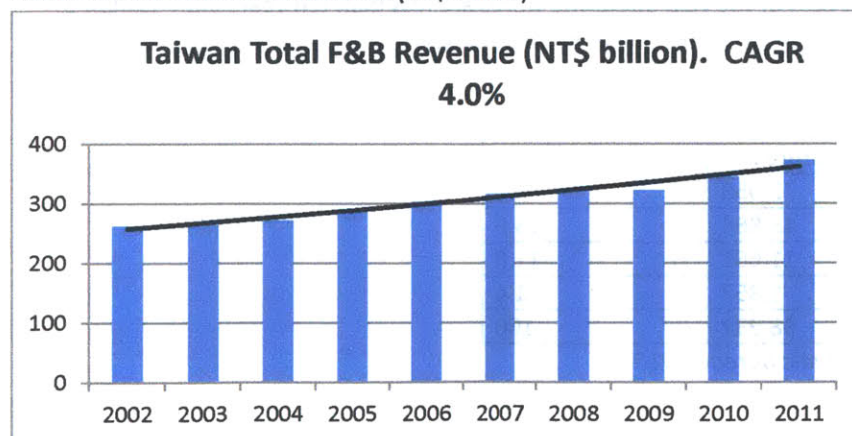
Source: Ministry of Economic Affairs R.O.C Statistics Bureau 2011

Exhibit 2b: F&B Revenue (US\$ billion) and Growth

	2009		2010		2011	
	Revenue	% Growth	Revenue	% Growth	Revenue	% Growth
Food	9.06	0.15	9.72	7.33	10.56	8.60
Beverage	1.19	-0.79	1.26	5.99	1.32	4.85
Other F&B	0.48	0.02	0.51	6.31	0.52	3.11
F&B Total	10.73	0.04	11.49	7.14	12.4	7.94

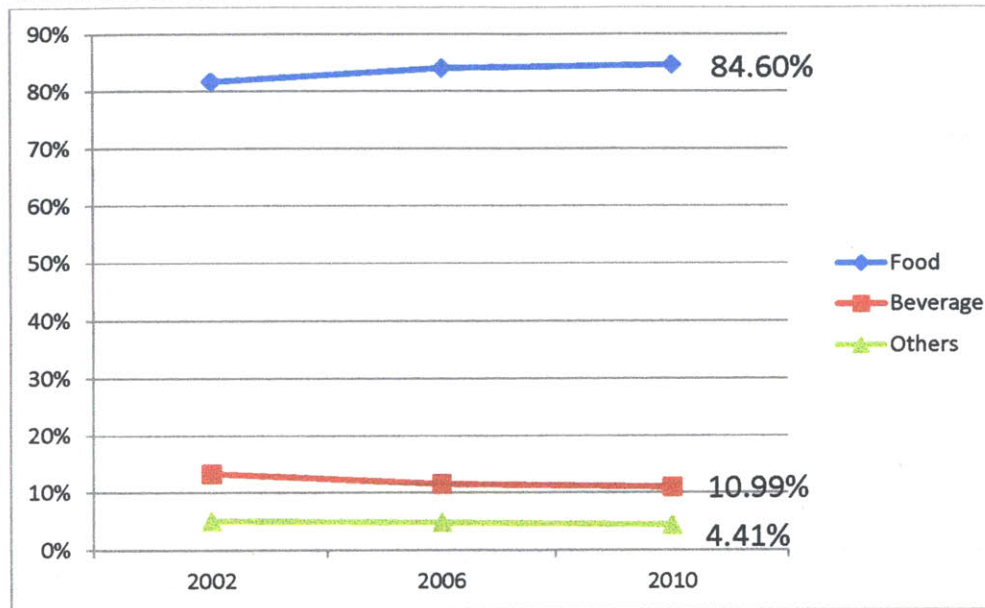
Source: Ministry of Economic Affairs R.O.C Statistics Bureau 2011

Exhibit 2c: Historical F&B Revenue (NT\$ billion)



Source: Ministry of Finance, Statistic Bureau 2011

Exhibit 2d: F&B Sector Breakdown



Source: Ministry of Finance, Statistic Bureau 2011

Because entry barrier for F&B business is low in Taiwan, F&B business is one of the top choices for entrepreneurs and individuals seeking a career change. Upfront capital investment is relatively low compared to other industries. Typically, a small bar in Taiwan would cost less than US\$10 thousand to set up. In 2010, 91.97% of the F&B business in Taiwan is self-funded ventures, and they represent 44.62% of total industry revenue.

Due to fierce competition and many F&B businesses' lack of experience and vision, many restaurants and bars come and go. In 2010, it was estimated that half (49.61%) of F&B operating stores are less than five years old, and almost 80% of the F&B operating stores are less than ten years old². Exhibit 3 shows the total number of operating stores in Taiwan by end of 2009.

Exhibit 3: Taiwan F&B Operating Stores (2009)

	# of Stores	%
Food – Restaurants	72,050	72.8
Beverage	13,864	14.0
Food – Stands	11,661	11.8
Other F&B	1,357	1.4
Total F&B	98,932	100

Source: Ministry of Finance, Statistic Bureau 2010

² 2011 商業發展研究院 Commerce Development Research Institute 2011

Total number of F&B stores in operations increased by 4,224 stores, or 4.5% in 2009. It is safe to conclude that Taiwan has roughly 107,000 F&B shops today serving the 23.2 million populations, assuming 4% annual growth over past two years. My target cities, at the beginning, are Taipei City and New Taipei, which make up 51.9% of all the restaurant presence in Taiwan based on Exhibit 1. So in Taipei and New Taipei in general, there are roughly 55,533 restaurants ($107,000 * 51.9\% = 55,333$). In 2010, around 75% of the companies achieve annual revenue between NT\$0.5 million to NT\$5 million (US\$16.6 thousand to US\$166 thousand). 0.05% of the F&B businesses (61 companies) achieve revenue of NT\$200 million (US\$6.66 million) in 2010. 2009 average revenue for each F&B store is NT\$3 million, and is between NT\$3.5 million to NT\$4 million in 2011. This average revenue data takes into account all sorts of F&B business types as defined in the first paragraph, so the data is not very reflective of earning power of the typical casual restaurant that I am targeting.

In addition to self-funded ventures, chains and franchise models are becoming more and more popular, especially in the quick casuals and quick service restaurants. Number of chain businesses has increased dramatically from 283 in 2006 to 526 in 2010, with 2010 showing a 23.76% growth from 2009. In addition to number of chain businesses, total number of stores for these chains have experienced double digit growth in the past couple years as well, reflecting more and more players jumping into the growing industry. Casual beverages such as bubble tea and juice shops represent the biggest growth in F&B chain. In 2010, there are 29 new casual beverages chain businesses in Taiwan compared to 2009, and total casual beverages stores increased 2,632 stores, 98.2% growth from 2009. Becoming a casual beverages franchiser is the easiest and the least expensive way to start up a business in F&B, hence the rise in popularity. Beverage brands such as 85c (coffee, bakery) and Chatime (bubble tea) have utilized the franchise model very successfully. Both companies have gone IPO, with 85c focusing on the China story, and Chatime focusing on Southeast Asia story. Franchising outside of quick casuals and quick service restaurants, however, remain less prevalent.

Breakfast chains also increased a lot as more than 80% of the population now eat out in the morning, on the way to work. Ministry of Economic Affairs estimated that total breakfast market could be as big as NT\$200 billion (~US\$6.6 billion). Exhibit 4 shows Taiwan's F&B chain segmentations data by cuisine types.

Exhibit 4: Facts on Taiwan F&B Chain 2010

	# of Brands	Total Stores	Average Store Per Brand	Direct Owned Regular Chain	Franchise Chain
Coffee Shops	50	1,717	34.34	627	1,090
Restaurant	222	2,814	12.68	1,482	1,332
Western	43	255	5.93	215	40
Japanese & Korean	39	643	16.49	409	234
Southeast Asian	7	43	6.14	40	3
Chinese	48	483	10.06	235	248
Steakhouse	18	349	19.39	143	206
Hot Pots	54	912	16.89	314	598

Casual Cantonese	13	129	9.92	126	3
Small Eats	70	4,357	62.24	761	3,596
Casual Beverage	83	5,313	64.01	666	4,647
Breakfast Shops	30	11,979	399.30	118	11,861
Fast food	71	3,117	43.90	1,633	1,484
Total	748	32,111	42.93	6,769	25,342

Source: Ministry of Economic Affairs, ROC

Segmenting Taipei restaurant business and defining the relevant segment targeting to enter:

I have segmented Taipei's restaurant business based on restaurant style as supposed to cuisine types. In the "casual dining" category, I further broke it down into Friend and Family, as these are two very distinctive segments in Taipei F&B businesses. There are certain casual dining places that Taiwanese people only go with friends, and some only with families. Some casual restaurants such as Ding Tai Fung are suitable for both friends and families. I have also created an atypical category Coffee & Afternoon Tea because this segment is extremely dominant in Taiwan and deserves its own distinction. The segmentations and their respective definitions are shown in Exhibit 5.

Exhibit 5: Taipei Restaurant Segmentation

Segmentation	Key Characteristics
Upscale Formal Dining	<ul style="list-style-type: none"> • Opened by Michelin Star Chefs or equivalent • NT\$3,000 (~US\$100) and higher for dinner, excluding drinks • For rare and special occasions • Mostly Western cuisine located in high end malls and hotels • Somewhat intimidating for first time goers
Upscale Casual Dining	<ul style="list-style-type: none"> • Luxury but more affordable and casual than upscale formal dining • NT\$1,500 to NT3,000 (~US\$50 to NT\$100) for dinner, excluding drinks • Comfortable ambience, suitable for business, family and friends • Example: sushi bars, teppanyaki, steak houses
Casual Dining – Friend	<ul style="list-style-type: none"> • Casual, trendy, modern, but louder than upscale dining. Suitable for adolescents and young adults gatherings • Open until late, past midnight • Located on streets, alleys, if in malls then separate exit due to hour restrictions • Roughly NT\$1,000 (~US\$30) for dinner, excluding drinks • Long waiting time is expected if no reservation • Example: 乾杯, 胡同(yakiniku), 鼎王(spicy hot pot), Kiki (trendy Chinese), NY Bagels, Diner (trendy American)
Casual Dining – Family	<ul style="list-style-type: none"> • Casual, family style and kids oriented • Cost is similar to casual dining friend, if not cheaper • Suitable for birthdays, teacher and students gatherings • Example: hotel buffet, Dan Ryans, Swensons, TGI Fridays, Pizza Hut

Casual Dining - Mix	<ul style="list-style-type: none"> • Both friends and families are welcomed • Bright , less trendy • Standardized menu and service. Food is consistent, but no surprise • Example: Ding Tai Fung, 瓦城 (casual Thai), 欣葉(casual Taiwanese), Wow Group's restaurants
Coffee & Afternoon Tea	<ul style="list-style-type: none"> • Serve mostly teas, coffees, sweets and desserts, with simple and light sandwiches and pastas • Targeting female customers of all ages • English style ambience, suitable for female friends gatherings • Long waiting lines expected on weekend afternoons • Example: Dazzling Café, 咖啡弄, The Grand Place (Waffle Shop) by Super Junior
Quick Casual	<ul style="list-style-type: none"> • Same definition as most quick casuals around the world • Food is made to order, but customers rarely sit to hang out (except Starbucks). They go in, eat, and then leave. Fast turnarounds • Example: MOS Burger, Starbucks, 春水堂 (bubble tea + Taiwanese food), 爭鮮 (sushi train)
Quick Service	<ul style="list-style-type: none"> • Fast food sector, suitable for breakfast and lunch • Cheap, less than NT\$200 (~US\$6) • Neighborhood, take out and to-go style • Not much decoration and design • Example: Beef noodle shops, 君悅排骨(fried pork ribs bento box), Ice Monster(Taiwanese mango dessert), 東區粉圓 (Taiwanese dessert), 永和豆漿 (Taiwanese breakfast), Mister Donut, 7-11, Yoshinoya, McDonald, Burger King
Little Eats	<ul style="list-style-type: none"> • Street food style. Food stand and food trucks • No physical store and no fixed opening hour • Located in night markets and streets • Cheapest • Mostly Taiwanese cuisine

The segment I want to focus on and enter is Casual Dining – Friend. In my view, this is the most lucrative category among all segmentation, as many of the restaurant examples given in the segmentation have experienced tremendous growth over past several years, with several companies going IPO pretty soon, if not already. When adolescents and young adults gather together, regardless of age, they have good times and tend to eat and drink more, giving considerable higher revenue per headcount compared to other casual restaurants. Most importantly, leverage is possible once menus are standardized and kitchens are centralized. Many very successful casual restaurants in this segmentation have established their own SOPs as well as centralized kitchens. Customers will continue to come as long as the restaurants continue to provide good ambience, quality and not machine-like food and services. Upscale Casual Dining and Casual Dining – Mix are also possible segmentations to penetrate, if the eventual restaurant's atmosphere and food are suitable and flexible enough.

Key Players in Franchise Food Restaurant Business

As mentioned above, chain businesses have become more and more popular and prevalent in Taiwan F&B industry. However, franchising, while prevalent in quick service eateries and quick casuals, are still very rare among casual dining restaurants. The development of Taiwan F&B businesses have revert the M-shaped society concept, as mid to high priced casual restaurants have grown substantially over the last couple years, evident by a slew of casual dining restaurants expanding and considering IPOs. As these casual restaurants continue to grow, they continue to utilize direct owned regular chain as supposed to franchising, due to quality control issues. In fact, beside Ding Tai Fung having franchisees outside of Taiwan, none of the more successful and profitable casual dining chain restaurants in Taiwan utilize the franchise method. Taiwanese restaurant owners are cautious about quality control, especially for those serving more upscale food and Chinese stir-fried dishes, which require difficult trainings such as experienced chef's detailed control of frying pan and fire. Below are a list of the latest and the most popular casual dining chain restaurants in Taiwan and Taipei. These restaurants all have achieved tremendous popularity over recent years and focus on the Casual Dining – Friend segment. Please note that financial data are only available for the first two groups on the list, because they have successfully gone public this year. Others are looking to file IPO within next several years.

1. 王品集團 Wow Prime

-Description:

Established in 1993, Wow Prime marketed itself as serving Formosa Plastic formal chairman Wang's favorite steak. The strategy allowed the company's first brand "Wang Steak" to grab immediate headline. The company has since introduced thirteen distinctive brands, ranging from Japanese fusion, Japanese BBQ, hot pots, teppanyaki, tonkatsu, coffee shops to fruit cuisines. Each brand has launched its own marketing campaign, working with media and credit card companies. Besides Wang Steak, all other brands are in the Casual Dining segment.

Wow Prime is best known in Taiwan for standardizing every detail of the restaurant culture to the extreme. Each one of the twelve brands has its unique service, food, mission, philosophy and target. The restaurants, however, sometimes are criticized for being too robotic, as each brand requires employees to bow and smile in a specific way, as well as say certain phrases and lines. Wow Prime nonetheless has achieved tremendous success and has approximately three hundred operating stores in both Taiwan and China currently. The company went public last year (2012) and aims to open one thousand stores by 2020. Wow Prime does not do franchise for quality control reasons, but has given out license this year in Thailand for one of its brand, Tokiya Taoban (陶板屋). All stores in China are direct chains.

-Products and Menus:

Wang Steak offers original steak and beef ribs that is Western but with a Chinese touch. The meat is neither rare nor red with blood, but is tender, which is embraced by Taiwan elder generations. Tokiya

Taoban serves fusion food cooked on a special ceramic clay pot. All other brands serve fairly standard dishes within their specific cuisine genre, but all with a slight variation and good presentation.

-Average dining price range and profitability:

Besides Wang Steak, which offers only one type of set menu at NT\$1,300 (~US\$43) + 10% service charge, all other brands are in the Casual Dining segment and are mid-priced between NT\$600 (~US\$20) to NT\$1,200 (~US\$40). Wow Prime's chairman insists of pricing its products at the middle and lower middle, which is affordable by all, but does not want to go down to the low price range of quick casuals. On average, a customer would spend anywhere around NT\$800 (~US\$26) at a Wow Prime restaurant.

In terms of profitability, in 1Q of 2012, consolidated as a group, Wow Prime achieved 55% gross margin, 13% operating margin, and 11% after tax net margin. None operating activities include interest revenue, licensing revenue from Tokiya Taoban Thailand operation, and minor loss from change in fixed asset. Company does not own any land of the restaurants, and thus depreciation is minor and only around 4.2% of total COGS and SG&A. In 2011 full year (unconsolidated) Wow Prime achieved similar results of 54% gross margin, 13% operating margin, and 10% net margin.

2. 瓦城泰統 Thai Tong Food & Beverage Group ("TTFB")

Description:

TTFB started off serving casual family style Thai food in 1990, Thai Town (瓦城) and started standardizing its kitchen and utilizing the POS system in 1993. The company placed majority of its stores within shopping malls to ensure foot traffic and built a name for itself for serving consistent Thai cuisines. After the initial success of the first family style Thai cuisine, TTFB rolled out its more trendy and contemporary brand Very Thai (非常泰), which also served Thai food but targets adolescents and young adults. TTFB further launched its Chinese Hunan food brand 1010 in 2006. TTFB currently has thirty stores in Taiwan, with only six of them being the 1010 Chinese restaurant. The company is almost the equivalent of Thai restaurant in Taiwan. TTFB went public in 2011 and is planning on opening one hundred stores in Greater China in the next couple years. The first Thai Town in China is slated to open in Shanghai next year.

-Products and Menus:

All dishes in Thai Town and Very Thai are globalized Thai dishes that can be found everywhere in the world. The two Thai brands serve almost identical food, but Very Thai charges a slight premium due to its livelier, darker and trendier ambience. 1010, on the other hand, serves traditional Hunan cuisine with a modern twist.

-Average dining price range and profitability:

TTFB is in the Casual Dining concept, and each of its dish in Thai Town and Very Thai is priced between NT\$300 to NT\$500 (~US\$10 to US\$16). 1010's price range is also affordable between NT\$300 to NT\$700 (~US\$10 to US\$23). On average, a customer would spend anywhere around NT\$650 (US\$21) in a TTFB restaurant.

In terms of profitability, in 2011 full year consolidated statement, TTFB achieved 54% gross margin, 12% operating margin, and 11% net margin. 2010 full year was consistent at 55% gross margin, 12% operating margin, and 10% net margin.

3. 鼎王餐飲集團 Tripod King

Description:

Established in 1993, Tripod King serves Taiwanese hot pot cuisines under its first brand 鼎王 Tripod King. The company is best known for having tasty spicy soup base that is tolerable to stomachs, unlimited refill soup that comes with tofu and duck blood, as well as its comfortable dining environment and courteous service (90 degree bowing). Each of Tripod King's restaurants is couple floors high with many seating capacity, but yet long lines are expected in each restaurant. Tripod King limits customer dining time to 1.5 hours, and it is not atypical that a 1 hour plus wait is expected if reservation is not made in advance. Tripod King also does delivery service for soup base and uncooked ingredients.

After the initial success of the spicy hot pot brand, the company rolled out its second brand 吳老鍋 Wulao that focuses more on health and well being. While Wulao also has spicy soup base available, its main emphasis is its Japanese style healthy none spicy soup base. In Taiwan, the company currently has eleven restaurant presences, four Wulao, and seven Tripod King, with more than two hundred seats available in each of its restaurant. Both Tripod King and Wulao opens until very late at night, and lines can be seen even in the very early morning. The company plans to enter the China market next year in Shanghai, using the Wulao brand. It has also been reported that Tripod King the company is entering into the Japanese yakiniku market, another extremely popular cuisine type in Taiwan.

-Products and Menus:

In both Tripod King and Wulao, typical Chinese hot pot food and ingredient can be found. The company prides itself on having its own special soup bases. Tofu, duck blood and soups are all refillable. Most customers order a half-half soup base, in which a pot is split in half, one for spicy soup and one for non spicy soup.

-Average dining price range and profitability:

Each hot pot ingredient's order is priced between NT\$100 to NT\$300 (~US\$3.3 to US\$10), including vegetables, meats, mushrooms, tofu, fish balls...etc. Soup base is counted as NT\$98 (~US\$3.3) for each head. On average, each customer would spend anywhere around NT\$500 to NT\$700 (~US\$16.7 to US\$23.3) in a Tripod King or Wulao restaurant. The company is considering going public but has yet to file anything, hence I do not have access to their profitability data. It is reported in public that in 2011, when the company had eight restaurants, the total annual revenue was NT\$1 billion (~US\$33.33 million), or roughly US\$4.2 million per restaurant store.

4. 乾杯餐飲集團 Kanpai Group

Description:

Kanpai was established in 1999 by a half Japanese half Taiwanese founder. The company serves Japanese BBQ, yakiniku and brings the Kanpai, or Japanese toasting, culture to Taiwan. The founder set up the first restaurant when he was only a college junior, and targeted teenagers and young adults in his earlier restaurants. The founder created some fun games such as kiss for free dish of pork, bottoms up at 8 pm and get a free refill, and immediately gained popularity among the under thirty young generation. The restaurants are small, usually in alleys, but loud and fun. It's quite an experience if going for the first time. Besides its earlier restaurants, Kanpai has since expanded and introduced more luxury brands such as Old Kanpai and Red Wine Kanpai, all serving Japanese BBQ but higher end environment and more expensive dishes. Kanpai Ippudo, the Japanese ramen shop, was opened in May 2012, serving all Ippudo dishes, with the second store opening in 2013. In all, Kanpai currently has sixteen restaurants, fifteen of which are in Taipei and North Taiwan, and one in Central Taiwan.

-Products and Menus:

Kanpai serves authentic Japanese yakiniku BBQ dishes and drinks, as well as some Korean appetizers, rice, and soup such as kimchi and bibimbop. The menus are generally very meat heavy. Old Kanpai also serves authentic Japanese BBQ, but using better ingredients and higher quality meats. Red Wine Kanpan serves Japanese BBQ with Western bistro influence in them. Besides BBQ, Red Wine Kanpan has more dishes that are cooked in the kitchen, served in foil and stone pots. Kanpai Ippudo serves same menu as Ippudo worldwide.

-Average dining price range and profitability:

Kanpai restaurants target the young and rowdy crowd. However, because of meats and drinks, the average dining price is roughly around NT\$800, which is slightly higher than most Casual Dining restaurants. Old Kanpai is even more expensive, with average dining price around NT\$2,000 (~US\$66.6). Red Wine Kanpai's price range is fairly similar to the regular Kanpai restaurants, unless nice red wines are ordered. Kanpai is not yet a public company, so profitability data is not publically available. It was reported that last year, with fourteen stores, Kanpai group generated NT\$550 million (~US\$18.3 million) of revenue, or almost NT\$40 million (~US\$1.3 million) per store. Kanpai restaurants are much smaller in size and would not sit more than forty people each round.

5. Other Notables

The above four restaurant groups, Wow Group, TTFB, Tripod King and Kanpai have generated the most media buzz and headlines over the past year because of their extreme successful operations and IPOs (or pending IPOs). Below is a list of other more popular chain restaurants that are also in the Casual Dining segment. I have left out popular quick casuals and quick service restaurants such as 85c, MOS Burger and Mister Donut, as I do not plan on entering that market.

Exhibit 6: Other Chain Casual Dining Restaurants (beside Wow Group, TTFB, Tripod King, Kanpai)

Brands	Products	Avg Dining Price
欣葉 Shin Yeh	Traditional Taiwanese dishes	NT\$800 (~US\$26.6)
鼎泰豐 Ding Tai Fung	Taiwanese dumplings and noodles	NT\$700 (~US\$23.3)
Kiki	Modern Sichuan dishes. Restaurant	NT\$700 (~US\$23.3)

	started by famous celebrities in Taiwan	
樂子 Diner	American food and brunch	NT\$800 (~US\$26.6)
Dazzling	Desserts and light sandwiches and pasta	NT\$700 (~US\$23.3)
NY Bagels	Bagels, Pizzas, Pastas	NT\$700 (~US\$23.3)
春水堂 Chun Shui Tang	Bubble tea and other Taiwanese noodles and rice dishes	NT\$300 (~US\$10)
三井 Mitsui	Japanese sushi, sashimi, grilled food and soups	NT\$2,000 (~US\$66.6)
爭鮮 Sushi Express	Japanese sushi, bento boxes, hot pots	NT\$600 (~US\$20.0)
饗食天堂 Eat Together	Buffet	NT\$800 (~US\$26.6)
胡同 Hutong	Japanese Yakiniku	NT\$800 (~US\$26.6)
晶華集團 Regent	Dining group that owns various restaurants with cuisine ranging from Thai, Japanese Shabu Shabu, Steakhouse, Japanese buffet, Cantanese...etc	NT\$800 (~US\$26.6) to NT\$3000 (~US\$100)
Various Tonkatsu, Ramen, Curry, Izakaya Shops	Tonkatsu, ramen, curry rice, izakaya dishes	NT\$400 (~US\$13.3)

Possible key regulatory issues on entering Taiwanese food & restaurant market

Based on my conversations with acquaintances and friends who have experience setting up their own restaurants in Taiwan, there are only a few factors that need to be taken care off before a restaurant can be opened.

1. Restaurant operating license. This license is easy to obtain and would only take approximately three weeks. There is no liquor license in Taiwan, so as long as people check the box of serving alcohol on the application, then alcohol can be served once the restaurant license is granted. A restaurant location must be determined already as actual restaurant address is required on the application, and the license is address based. Licenses should be granted as long as restaurant is not located in old residential area.
2. Fire hazard prevention. Similar to China, the fire department has a lot of say in allowing a shop to be opened or not. For example, all decorations and design must be approved by the fire department beforehand, and fireproof decorations are preferred. It is not difficult to obtain approval, as long as all fire safety requirements and standards are met and cleared before construction starts. The fire department inspects restaurants every two years.
3. Labor law requirement. As F&B business is in the service industry, owners must pay employees accordingly to the labor law requirement and cover basic labor and health insurance expense. Family members of these employees can also add their health insurance to the employee's under the company, creating additional cost for the firm. Retirement scheme are also newly implemented in 2012, in which additional 6% of employee's compensation must be saved aside for retirement purposes. Labor and health insurance as well as retirement scheme usually adds up to around an additional 10% of salary expenses.

4. **Consumer's Foundation.** Consumers' Foundation was established for the purpose of protecting consumer's rights against retail shops. The foundation is not a government entity, thus cannot punish nor fine companies. However, when Consumers' Foundation receive a complaint against a store, the foundation will bring in media and press to magnify the issue and challenge the retail store for the issue at hands. So while the foundation is not a legal government entity, it has legitimate power to harm company's public images and reputations. It is important to respect the Consumer's Foundation and respect all consumers to ensure no bad public relations are created.

Taiwanese government has taken a number of initiatives in recent years to welcome foreign investment into Taiwan. Actions include direct flights between Taiwan and China, (2008 July), allowance of PRC citizens visiting Taiwan via tour (2008 July), allowance of PRC investment in Taiwan (2009 July), lowering of corporate income tax from 25% to 17% (2010 May), and signing of ECFA (2010 June). While most of these actions are China focused after the political regime changed in 2008, Taiwan government does have a very open mindset regarding foreign investment into the island, as well as local entrepreneurship. In fact, Taiwan features a very entrepreneur friendly environment because licenses are not difficult to obtain, regulations are transparent, and large corporations remain focused and do not step into all the available sectors, hence lower entry barriers and better chance of thriving for start ups. The only major hurdle currently is the inflow of oversea money from local Taiwan citizens. Because of anti-money laundering and potential foreign tax reasons, Taiwan's government is requiring any inflow of currency over the value of NT\$5 million to make declaration. As long as legitimate source of money is presented and disclosure is done, there should not be any issues.

In F&B industry, innovation, well-being, safety and standardizations are highly encouraged by government. After all the safety scandals regarding some Taiwanese drinks containing plasticizer phthalate (塑化劑) and US beef containing lean meat agent ractopamine (瘦肉精), the government has taken extra steps to monitor food supply chain and processing to ensure safety. Restaurants should understand where their suppliers source their ingredients to make sure they are serving healthy and safe food to end customers. Unlike technology industries, government does not grant subsidies for restaurant owners. Also, recently (July 2012), as government increased energy and oil price, they will take keep eyes on dominant restaurants like Ding Tai Fung to not increase food prices overtly since food inflation has been controlled.

In sum, all rules and regulations are clear, transparent and not difficult to meet. As long as restaurant owners meet the requirements, there should not be any problem.

II. Understanding Taiwanese customers

Population and composition

Ethnic

As mentioned in Part I, Taiwan has an approximate population size of 23.2 million as of 2012. Because of Taiwan's relationship with China, among the older generation, my grandparents' age, there is a difference between traditional Taiwanese (本省人), the first Han Chinese immigration to Taiwan which includes Taiwanese Hakka community, and mainlanders (外省人) who immigrated to Taiwan with the KMT during World War II. Most of the mainlanders came from Fujiang. While there used to be a hostile relationship between traditional Taiwanese and mainlanders due to different politics and customs, the relationship was much improved in the 1980s. Today, the mainlanders that came before 1950 are very localized and the two groups are mixed together. It would be difficult to tell the two groups apart, unless of unique last names that originated from China.

Aborigines (原住民), the indigenous people of Taiwan, are the first people that have lived in Taiwan and are believed to have lived in the island for eight thousand years before Han immigrants arrived. As of May 2012, there are roughly 522,942 aborigines living in Taiwan (Dept. of Household Registration Affairs, MOI). In addition to Taiwanese and Aborigines, there are around four hundred and ten thousand foreigners, or less than 2% of total population, that reside in Taiwan long term or permanently. 88.7% of the foreigners are labor forces and maids that came from Indonesia, Vietnam, Thailand and Philippines. Based on National Immigration Agency of Taiwan, roughly 2% of the foreign residents are American, 2% are Japanese, 2% are Malaysian, and the other nationalities do not make up a meaningful portion of the foreigner community.

Age

Based on the latest 2011 Taiwan Statistic Data Book, the age distribution can be found in below Exhibit 7a. 73.6% are between age fifteen and sixty four.

Exhibit 7a: Taiwan Population by Age Group. Total Population: 23.2 million

Ages	Under 15				15-64				
	Subtotal	Under 5	5~9	10~14	Subtotal	15~19	20~24	25~29	30~34
2011	15.6%	4.2%	5.0%	6.5%	73.6%	6.9%	6.9%	8.2%	8.8%

Ages	15-64 continued						65 & Over		
	35~39	40~44	45~49	50~54	55~59	60~64	Subtotal	65~69	Over70
2011	7.7%	8.0%	8.2%	7.7%	6.8%	4.4%	10.7%	3.2%	7.6%

Source: Taiwan Statistic Data Book 2011, Executive Yuan ROC (Taiwan)

I want to start the restaurant business in Taipei City, with possible reach to New Taipei. In Taipei City and New Taipei, between age 20 to 44, which would likely be my targeted group of adolescents and young adults, there are 2.58 million people, with New Taipei having 1,608,001 and Taipei City having 972,606 (Dept. of Household Registration Affairs, MOI).

Exhibit 7b: Taipei City Population by Age Group. Total Population: 2.65 million

Ages	Under 15				15-64				
	Subtotal	Under 5	5~9	10~14	Subtotal	15~19	20~24	25~29	30~34
2011	14.4%	4.5%	4.3%	5.7%	72.8%	6.0%	5.8%	6.7%	8.2%

Ages	15-64 continued						65 & Over		
	35~39	40~44	45~49	50~54	55~59	60~64	Subtotal	65~69	Over70
2011	7.9%	8.1%	8.2%	8.1%	7.8%	6.0%	12.7%	3.6%	9.1%

Source: Taiwan Statistic Data Book 2011, Executive Yuan ROC (Taiwan)

Exhibit 7c: New Taipei Population by Age Group. Total Population: 3.92 million

Ages	Under 15				15-64				
	Subtotal	Under 5	5~9	10~14	Subtotal	15~19	20~24	25~29	30~34
2011	14.5%	4.0%	4.6%	5.8%	77.0%	6.9%	7.2%	8.1%	9.3%

Ages	15-64 continued						65 & Over		
	35~39	40~44	45~49	50~54	55~59	60~64	Subtotal	65~69	Over70
2011	8.4%	8.1%	8.5%	8.2%	7.3%	5.1%	8.5%	2.8%	5.7%

Source: Taiwan Statistic Data Book 2011, Executive Yuan ROC (Taiwan)

Average Income Per Capita, Consumption Per Capita & Population Income Band

As shown in Taiwan Statistic Data Book 2011, Taiwan's national income in 2010 was NT\$12,011 billion (~US\$400 billion). National income is consisted of employee compensation, private income from property, private transfers from enterprises, net indirect taxes, businesses profit tax, government income from property and enterprises, compulsory fees, fines and penalties and corporate savings. The national income per capita in 2010 was NT\$519,067 (~US\$17,302). Due to financial crisis and negative growth in 2008 and 2009, the 2010 number represents a 10.0% nominal growth from 2009, but only about a 1.5% effective annual growth from 2007 (Taiwan Statistic Data Book 2011). Private consumption per capita is roughly NT\$341,493 (~US\$11,383) based on 2010 National Accounts Book by Industrial Census Report of Taiwan.

Exhibit 8: 2010 Per Capita Income and Consumption

Income Per Capita	Consumption Per Capita
NT\$519,067 (~US\$17,302)	NT\$341,493 (~US\$11,383)

Source: Taiwan Statistic Data Book 2011 & 2010 National Accounts Book by Industrial Census Report of Taiwan

Exhibit 9 shows the population income band based on 2008 data. The average salary in Taiwan has not increased for thirteen years, and income distribution has not changed much. It is safe to assume that current income distribution is similar to 2008's yearend number. In fact, college graduate's average salary in Taiwan is reported this month (June 2012) to be the thirteen year low after adjusting for inflation.

Exhibit 9: Population Income Band 2008

Annual Income Groups	% of Salary Receiving Population
US\$8,000 or lower	15.7%
US\$8000 ~ US\$13,333	31.5%
US\$13,333 ~ US\$20,000	24.8%
US\$20,000 ~ US\$29,333	16.8%
US\$29,333 ~ US\$41,663	7.6%
US\$41,663 ~ US\$60,000	2.4%
US\$60,000 ~ Higher	1.3%

Source: Taiwan Survey of Family Income and Expenditure, 2008

Average Family Income & Consumption

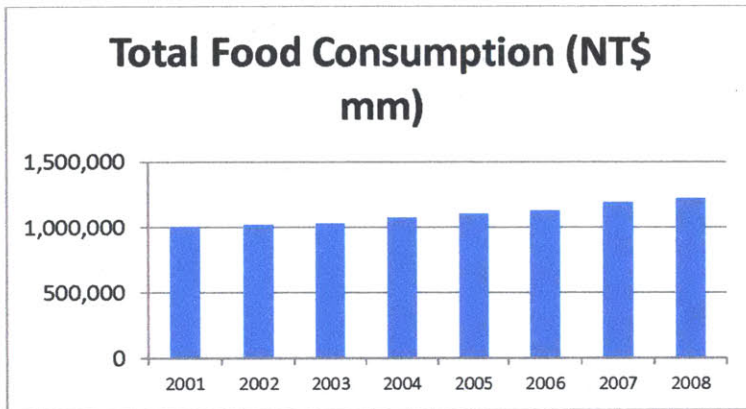
The below Exhibit shows the average family income and consumption, and the percentages of consumptions that are spent on purchasing food and nonalcoholic drinks, excluding restaurant spending. Restaurant and hotel lodging spending as a percentage of household expenditure are also included in the table. Average family income has not increased for almost a decade. The 2010 number is similar to the 1999 data. However, "total food consumptions", excluding drinks and beverages but including restaurant spending, purchasing food grocery, or any food related consumptions, does show steady increases over the last ten years. Percentages of people dining out have also grown consistently.

Exhibit 10a: Average Family Income and Expenditure Per Household 2010

Average Per Household	Overall	New Taipei	Taipei City
Family Income	NT\$889,353 (~US\$29,645)	NT\$893,859 (~US\$29,795)	NT\$1,298,640 (~US\$43,288)
Family Expenditure	NT\$702,292 (~US\$23,409)	NT\$722,847 (~US\$24,095)	NT\$988,691 (~US\$32,956)
F&B (Non-Alcohol & Excluding Restaurant Spending) Consumption as % of Family Expenditure	15.3%	15.0%	14.0%
Restaurant & Hotel Spending as % of Family Expenditure	9.7%	11.0%	7.9%

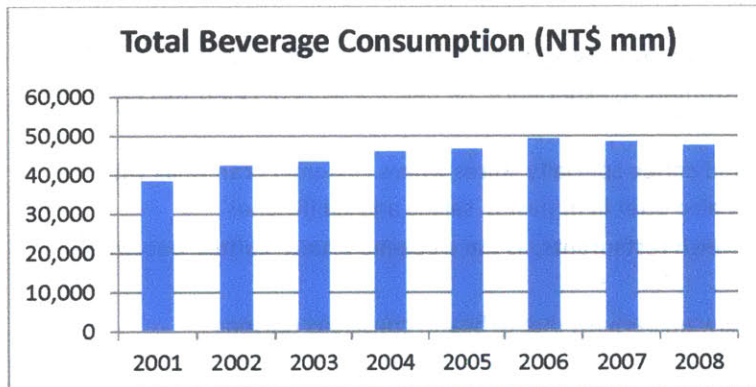
Source: Taiwan Survey of Family Income and Expenditure, 2010

Exhibit 10b: Total Food Consumption in Taiwan



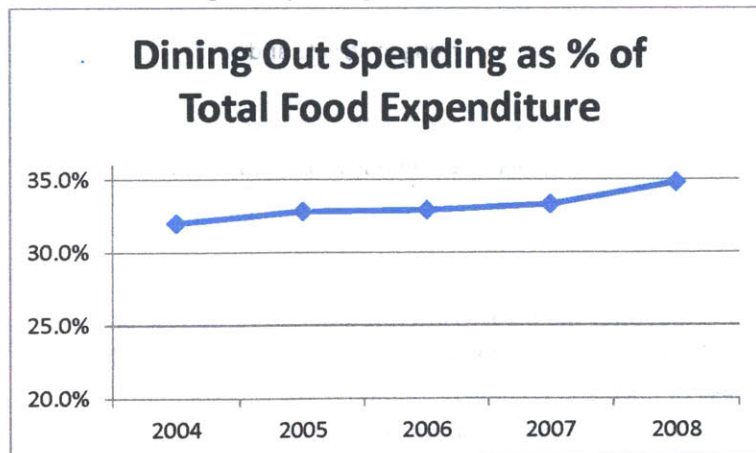
Source: Statistics Executive Yuan ROC, 2010

Exhibit 10c: Total Beverage Consumption in Taiwan



Source: Statistics Executive Yuan ROC, 2010

Exhibit 10d: Dining Out Spending as % of Total Food Expenditure



Source: Statistics Executive Yuan ROC

Total dining out spending as % of total food expenditure currently would be similar to the available 2008 data, since 2011 total F&B revenue of NT\$372.1 billion (as shown in Exhibit 2) is around 30% of total food consumption, assuming a 3% annual growth rate on consumption as shown in Exhibit 10b. Based on all these data, Taiwanese spend around 12~15% of income on food (Exhibit 10b divided by total national income of NT\$12,011 billion (~US\$400 billion)), of which more than 35% of spending are spent in restaurants

Key Trends in Customer's Dining Preference

Below are some trends and restaurant style development in casual dining segment that I have observed. These developments exist to meet customer preferences and are divided by ethnic food sector.

All Western:

- More bistro and brasserie restaurants available
- Celebrity chefs extending their brands into casual dining concept. The affordable pricing of these restaurants allow more customers to experience the delicate work of celebrity chefs without paying a hefty price
- More and more dessert, bread and coffee specialty stores where customers can relax with friends and enjoy the time. They also offer light pastas, salads and sandwiches
- Emergence of many American brunch restaurants, as the weekend brunch culture becomes more popular in Taiwan
- Pizzas are still less accepted in Taiwan, perhaps due to health conscious reasons

Korean:

- The old neighborhood restaurants style still remains, and attracts mainly family customers who live nearby. These restaurants are very localized already and hardly offer authentic Korean dishes
- Still very BBQ focused, but with some newer tofu houses rising in streets and malls, attracting younger generations
- Establishment of Samwong, the first professional Korean restaurant from Korea, as well as some other more modern but cheaper version of Korean eateries. In July 2012, a high end lounge like Korean restaurant was also established.

Chinese:

- Development of trendy restaurants that offer the modern interpretation of Taiwanese or various mainland Chinese cuisines. These types of restaurants attract the younger crowd
- Revival of the traditional Taiwanese or mainland Chinese restaurants. These restaurants have been around for a long time, maybe 30 years or more, and still attract customers nowadays because they offer the “古早味” (ancient taste) and authenticity. Some new Chinese

restaurants nowadays try to imitate the old school decorations and food presentations. These restaurants are embraced by both adults and children

- Hot pots culture lives on. Taiwanese people, regardless of age, all love hot pots restaurants. They are suitable for families and friends. Hot pots restaurants have been, and continue to be, a popular place for people to dine, regardless of weather

Japanese:

- Rise of many specialty sushi stores that are located in alleys. These stores sell only sushi, nigiri and chirashi, and only offer a sushi bar for customers to sit, enough for around 15 customers to sit at one round. These stores are extremely difficult to book, but are beloved by many adults
- Continued popularity of ramen, and tonkatsu stores. Ramen and tonkatsu stores always have long lines waiting during business hours. Taiwanese people like ramen a lot more than udon, as udon specialty restaurants do not reach the same popularity level
- Rise of Mitsui the company. Mitsui offers course style cuisine for customers at the best value in Taiwan, forcing many traditional Japanese restaurants in Taiwan to close. Mitsui expands into upstream value chain and even sells to many competing Japanese restaurants
- Continued popularity of small yakiniku, yakitori and izakaya restaurants. These restaurants only open at night and are perfect for adolescents and adults to go with friends, after work and grab drinks

Key Traits in Potential Target Customer Segment

As mentioned, I want to open casual dining – friend and casual dining – mix restaurants that target the customer segment of adolescents and young adults. These customers are young, trendy, fashionable and love to spend good times with friends. They are between the ages of 20 to 44, tech savvy, enjoy eating, drinking, and have enough disposable income as most of them do not have children to support, and many still receive money from parents. They are loud and fun, and prefer eating with friends as supposed to families. This targeted segment includes college students and young and mid to senior professionals in various industries. I have highlighted below their key preferences when dining:

- Trendy and vibrant environment and ambience. Music must fit, decorations must be trendy and fun, and servers should be more personal instead of robotic. The more comfortable and relax customers feel about the restaurant, the more they will spend on drinking. These customer love making friends, and like to strike up a chat with servers, so employees must be attendant and knowledgeable about their respective restaurants
- Enjoyment of hot pots and BBQ. As shown in Part I, many of the most popular chain restaurants these days are Japanese yakiniku/yakitori and Taiwanese hot pot stores. These restaurants have established their footings due to the support of adolescents and young adults. They offer the vibrant space for them to enjoy and relax with friends. While many consumers are more aware of health and well beings, these hot pots and BBQ stores are still extremely popular at night

- **Emphasis on C/P value.** All the restaurant goers in Taiwan talk about C/P value, which is the short for cost and performance, or capability and price. While this customer segment does have disposable income, they are not necessarily the ultra wealthy crowds. Thus restaurants must ensure prices are reasonable and valuable. Most importantly, the customers will be much more satisfied if portion is toward the generous side. Most customers would accept anywhere around NT\$1,000 (~US\$33), excluding lavish drinking, if they are satisfied with good food, ambience and services
- **Tech savvies.** Everyone in this customer base has a smart phone in hands, so free wifi access is a must in restaurants. They love taking photos and immediately upload on social network websites like Facebook and their personal blogs, so food presentations must be great. Any negative or positive comments are shared online instantly. These customers do majority of restaurants researching online by looking at personal blogs' comments or online reviewing websites as well as smart phone apps. So a good way to promote is to work with these websites and apps for special deals or marketing campaigns
- **Desire to try new things.** Customers in this segment are always looking for great places to eat and relax with friends. Even in restaurants they have been many times, they are looking for new and seasonal dishes. They enjoy eating food that are off menus, and post pictures of fancy dishes online, to seek attention, to show the special treatments they received or their familiarity with restaurants
- **Late eating time.** While these customers eat a quick business lunch, they enjoy staying and spending time with friends at dinner. Casual dining restaurants targeting toward these crowd usually open until midnight or later. On weekends, they also enjoy eating late snack, which is another meal after dinner, after drinking, clubbing or singing

Major Korean restaurants in Taiwan and customer's preference in Korean foods

Historically, there have never been any major Korean chain restaurants in Taiwan. Most Korean restaurants are opened by Korean immigrants who came to Taiwan, and serve dishes that are centered on BBQ beef and ginseng chicken. These restaurants are small, not well decorated, family run and located near residential neighborhood, serving customers living nearby. Some opened Korean food in mall food courts with simple menus focused on bibimbap. Overtime, these restaurants become more and more localized, less authentic, and give the low-end impression to restaurant goers.

Over the past couple years, as Taiwanese become more acquainted with and interested in Korean culture through drama and music, there have been more Korean chain restaurants opening. These restaurants fit the casual dining concept better, provide better environment, but still lack authenticity and not in line with the better Korean food that I am accustomed to in Korea, US, HK and even China.

Below are the three major Korean chain restaurants in Taipei at the moment. There are a few other older and more localized Korean restaurants in Taipei, but the three below are the most popular.

1. 涓豆腐 Dubu House JBSD

Franchise chain store from Korea, specializing in tofu soups, but also serving BBQ dishes, seafood pancakes and stir fried rice cakes. There are currently five JBSD in Taiwan, four in North Taiwan and one in Central Taiwan. JBSD is cheap, modernly decorated, clean restaurant that targets mostly students. A set would typically cost around NT\$300 (~US\$10). Business is good and reservation is needed in advance. Most customers' reviews said food is average, but given the price and environment it's reasonable.

2. 三元 Samwong Garden

BBQ chain store from Korea. There are currently two Samwong Garden in Taiwan, one in Taichung and one in Taipei (Neihou). The restaurant serves mostly meat BBQs with some other limited options of dishes. Restaurants are big, new, and target nearby neighbors and Korean office workers. Samwong marketed itself as Korean movie star Bae Yong Jun (裴勇俊)'s favorite Korean bbq restaurant in Seoul. The truth behind the marketing is unknown, but the restaurant did successfully grabbed attention. Samwong Garden is the most expensive Korean dining option in Taiwan, and each customer would spend around NT\$1,000 (~US\$33) or more if BBQ beef is ordered, excluding drinks. Samwong is the most authentic Korean restaurant in Taiwan, and many Korean customers can be seen. The restaurant also claims for using mostly imported products from Korea. However, after trying it with much anticipation, I was disappointed as the food only tastes slightly better than food court options in Taiwan. Business is good however, and same day reservation is difficult, especially at nights.

3. 兩班家

Among the Korean restaurants that are not chain store from Korea, 兩班家 is one of the better options. The restaurant is clean and specializes in BBQ, ginseng chicken, and bibimbob. All of 兩班家 restaurants are located in shopping malls, so business is usually good during meal hours, and many times there are even lines waiting. Most customers there order set meals, and average dining price would be around NT\$600 (~US\$20). The company has both casual dining restaurants as well as quick service restaurants. Food, however, is just average in my view, and all dishes have very Taiwan localized taste. Most customers go not because they crave the food at 兩班家 but simply because there are not enough sit down restaurants in most malls in Taiwan.

4. Bannchan 飯饌韓式料理餐廳

Bannchan restaurant group is opened by a Korean celebrity in Taiwan and targets the young crowd with very affordable prices. Each of the dishes would cost less than NT\$200 (~US\$6.66), and the food ranges from rice cake, congee, tofu/kimchi soup, pancakes, bbq dishes, qimbob, to Korean fried chicken. The restaurant has three presences, all in shopping centers in Taipei City and Taichung, and another sister restaurant Ari Tofu House that focuses on tofu pots located in an alley in Taipei City. The restaurant

offers quite a variety of food selections, and decoration is modern and clean with semi-open kitchen. There are usually customers waiting in lines during meal hours, and table turnarounds are fast. Food quality is not high, however, given the cheap pricing.

5. Burnt Charcoal

Burnt Charcoal is opened by a Taiwanese restaurant owner who had experienced in Spanish tapas. The restaurant is very expensive and averages around NT\$2,000 (~US\$60) per person at night. The decoration of restaurant is very night club and lounge like, and live singing performances are featured on Friday and Saturday nights. Food is very fancy, but very overpriced in my view. The restaurant was opened in July 2012, and almost a year later, business has not picked up thus far.

In sum, while there are Korean restaurants in Taiwan, there are still lots of room for growth, especially in the more upscale area. The Korean restaurants in Taiwan trail far behind the Korean restaurants available in US, Hong Kong, and China. Besides those who have traveled to Korea, most customers in Taiwan have not experienced the real authentic Korean food. Taiwanese customers have only been introduced to bibimbob, tofu soups, pancakes, BBQ, and ginseng chicken, and they seem to embrace them. In fact, most Korean restaurants in Taiwan simply offer a set menu that includes everything. My goal is to bring the real authentic, new generation of quality Korean food to Taiwan, and offer much more varieties and options for customers to choose from. I am confident that with more and more Taiwanese people now fully in love with Korean pop culture, they would appreciate the real flavor from Korea.

III. Influence on mainland affluent Chinese customers:

Taiwan's influence on mainland affluent Chinese people

Taiwan, in general, has a major influence on mainland China citizens' everyday lives. PRC citizens listen to Taiwanese music, watch Taiwanese movies, dramas, TV shows, and even imitate the latest and newest Taiwanese slangs. They utilize online resources such as PPStream Youku and Weibo to watch and learn the latest lifestyle trends in Taiwan, despite many Taiwanese websites being blocked in China. As an example of Taiwan's culture influence in China, "Kang Xi is Here", one of the most popular daily TV shows in both Taiwan and China, is not even aired in China. Yet, whatever is said on the show has an immediate ripple effect all over Taiwan, Hong Kong, Greater China, Chinese populations in North America and South East Asia. If a singer in China or a business in Taiwan wants to become famous, they just need to get the host and hostess to mention and talk about their names, and they will immediately be discussed all over the mandarin speaking population in the world. In general, PRC citizens are extremely curious and interested in Taiwanese lifestyle culture, as they also understand Taiwan is a country where liberty and creativity is encouraged. In fact, having lived in China for a year, I can testify that PRC citizens firmly believe Taiwanese products of any kinds are far superior in quality, even though similar locally manufactured products are also sold in China.

PRC governments are extremely receptive to Taiwanese companies establishing presence and investing in China. They go out of their way to host extravagant tour trips in China for Taiwanese companies and make luring promises. Governments in Tianjin, Beijing, Nanjing and Shanghai have all set up their own version of Taiwan town, and many other local governments are following suit. They are not satisfied with Taiwanese companies simply setting up manufacturing factories in China anymore, but rather want to bring the Taiwanese lifestyle to mainland.

In the F&B industry, Taiwan also plays a major role in influencing China. Food products by Taiwanese brands Kang Shi Fu, Uni-President, and Want Want are found in almost all the supermarkets in mainland. In fact, products from these three companies are perceived as being superior to local counterparts because of their Taiwanese roots. Restaurants that originated from Taiwan, such as Ding Tai Fung, 85 Degree C, Wang Steak House by Wow Prime, have all been extremely successful. The four representative casual dining restaurants mentioned above, Wow Group, TTFB, Tripod King, and Kanpai, are all establishing their own restaurants in China, if not already. Smaller Taiwanese desserts shops like 鮮芋仙, which is not doing very well in Taiwan, have also received great reception in mainland. In fact, TTFB, in December of 2012, has formed a joint venture with Golden Eagle Retail Group, one of China's largest department store chains, to expand in China³. Beside Tripod King and Ding Tai Fung, which serves Taiwanese style hot pots and dumplings, many other Taiwanese restaurants, clubs/lounges (Spark in Beijing, Bund 18 in Shanghai), karaoke (Cashbox) brands that have done well in China do not serve Taiwanese food. This phenomenon shows that China is not just interested in Taiwanese cuisine, but the overall Taiwan culture and lifestyle.

Based on information provided by Ministry of Economic Affairs, In Taiwan, in 2009, the first full year that direct flight is allowed, PRC tourists spent NT\$25.63 billion (US\$854 million) in Taiwan. Out of the NT\$25.63 billion, NT\$3.159 billion (~US\$105.3 million), or 11.7%, were spent on dining. This number has only increased as there are more and more PRC tourists visiting Taiwan each year. In 2010, first six months, PRC tourists already spent NT\$3.696 billion (~US\$123.2 million) on dining, exceeding 2009 full year spending, in half of the time. Given Taiwan's total F&B revenue last year was NT\$372.1 billion as shown in Exhibit 1, it is safe to assume that roughly 2% of Taiwan's F&B business is driven by PRC tourists. PRC tourists enjoy eating Taiwanese food and Taiwanese snack. In fact, some of Taiwanese snack and cake retail shops, such as Chiate (嘉德) and Vigor (薇格), are considering going IPO because their businesses have skyrocketed due to PRC tourists, despite having very limited retail store presences.

Besides spending on food, snacks, souvenirs and lodging, many of the affluent Chinese customers come to Taiwan to purchase luxury items. Taiwan luxury items' retail price, with tax refund, is much cheaper than China. Many luxury brands' flagship stores in Taipei have expanded to become one of the biggest in Asia, as they need to accommodate PRC tourists. It is normal to walk into a flagship stores these days and find majority of shoppers being PRC tourists, a scene all too similar to Hong Kong.

³ Taiwan Economic Daily News Press Release, January 9th, 2013

I do not have hard data showing Taiwan's influence on Chinese affluent customers relative to Hong Kong and Singapore. However, based on my observation, I can claim that both Hong Kong and Singapore offer the westernized culture influence to China, whereas Taiwan brings the leading Chinese lifestyle trend. Hong Kong, governed under its own political regime, has lost its edge in recent years due to the rise of Shanghai, which is modeled after Hong Kong. Majority of affluent Chinese, if not everyone, has been to Hong Kong. Singapore has slowly become one of affluent Chinese's favorite immigrated destination due to tax purposes, but is still more than six hours away by flight from most areas in China. Due to its location, history and special relationship with China, Taiwan offers the proximity, creativity, mystery, as well as the original and new Chinese culture. It is much more common for PRC citizen to have the desire to learn the lifestyle, the slangs, the songs, the dressing style and the food of Taiwan, as supposed to Hong Kong and Singapore, which offer the much more westernized influence.

By the same token, because Taiwan is not as westernized as Hong Kong and Singapore, most businesses that succeed in Taiwan would also thrive in China. Many companies indeed use Taiwan as a test market for business, and if successful, bring the same model to China and market themselves as coming from Taiwan, which stands for trendiness and quality in PRC customers' mind. Clubs like Spark in Beijing and Bund 18 in Shanghai, karaoke Cashbox, Ding Tai Fung, 85 degree C are all examples of Taiwan companies that succeeded first in Taiwan then expanded to China afterward. Western chain restaurants like California Pizza Kitchen, have also given their master franchise rights for the entire Greater China landscape to a Taiwanese company, to start off in Taiwan first, then expand to China after establishing firm footing in the mainland. Taiwanese influence can be found in everyday life of PRC citizens, regardless of social status, and in my view, the Taiwan influence far exceeds those from Hong Kong and Singapore.

IV. Understanding my business aspirations:

Type of business I would like to pursue with CJ

The type of Korean restaurant that I have in mind is trendy, stylish and offers the contemporary and new generation of authentic Korean food. The restaurant is in the casual dining segment targeting fashionable adolescents and young adults between age 20 to 44. During lunch hours the food should be authentic and served swiftly, targeting office workers nearby. At night the environment will be more vibrant, darker lightening, paired with good music, more New York style trendiness and the food heavier in taste. People should come to the restaurant at night to relax, blow off some steam after work, drink with friends, eat good food and celebrate. My vision is not a mall food hall style, cheap Korean restaurant that are common in Taipei, but rather a special place where people can enjoy quality food with drinks. Average dining price at night, excluding alcohol, should be around NT\$1,000 (~US\$33).

I want to do a joint venture with CJ (or at least secure investment from CJ). I can offer CJ the local knowledge, familiarity in Taiwan dining industry and customer preference, find the right employees, access to many of the more affluent crowds, and take care of problems that are Taiwan specific. On the

other hand, I do need CJ's help in hard culinary skills such as teaching the chefs how to cook real authentic Korean food, leadership in operating a proper Korean restaurant, and running a centralized kitchen when we reach that stage of business. It is much more convincing to customers when they know that a prominent food company like CJ is involved with the restaurant. Also, additional marketing campaign with CJ E&M is ideal to attract the large crowd of Korean pop culture enthusiasts in Taiwan. (For reference, in the first half of 2012, from concerts tickets alone that are hosted in Taiwan and excluding all other peripheral benefits that come with those concerts, Korean pop bands have generated more than NT\$400 million (~US\$13.3 million) in revenue. This is a testament to how enthusiastic Taiwanese people are about Korean entertainment and how Korean pop culture's popularity has grown over these years).

I do not look at this collaboration as a onetime deal, but a beginning of a much longer relationship down the line. With CJ's expertise and my local knowledge and passion, I believe we can create a restaurant brand that is unique in Taiwan and expandable to China when a certain scale has been reached. Continuous improvement and development are imperative for this new brand to be successful in the long run. With CJ investing in this venture, both sides would be more involved and work harder in the process to create a win-win situation in which I can bring authentic Korean food to Taiwan and beyond, and CJ's brand name can be more established in Taiwan and potentially Greater China.

I am open to other form of collaborations, and details of collaborations and investment can be further discussed. I want to emphasis that in order for this venture to be successful, I do need CJ's help, and I firmly believe with CJ's expertise and knowledge, we can create a successful and profitable outcome for both sides.

Type of brands & business categories I would like to get from CJ Foodville

Having tried some of CJ Foodville's restaurants over the CJ and Pious organized Seoul trip in May 2012 and well as January 2013, I feel Bibigo has many of the characteristics of the type of Korean food that I want to bring to Taiwan. It is clean, healthy and fresh and introduces Korean cuisine in a way that many cannot find in other parts of the world. I like the "Korean Cuisine to the World" concept and believe it can also work in Taiwan. However, I do want to expand beyond the current offerings by Bibigo. Bibigo is very suitable for lunch, with menu items that can be served and eaten quickly. Office workers can enjoy the food and go straight back to work afterward without feeling food coma and without any smoke and BBQ smell that are found in many typical Korean restaurants. At night, however, Taiwanese customers tend to enjoy foods that are tastier and heavier, especially at places where alcohols are served. Specifically, I want to have more menu item varieties available than the current Bibigo offerings, and these additional dishes should have more flavor and taste heavier to suit the Taiwanese consumer preference when dining at night.

I have come up with a selected list of menu items that I want to offer for this new restaurant in Taiwan. The preliminary list can be found in Appendix 1, and we can further discussed and expand the list. Many of the items are more traditional Korean dishes that I am certain Taiwanese people would love, but do

not have access to at the moment. Those are the popular Korean dishes that Taiwanese people enjoy when they travel abroad to taste Korean food, whether it is in New York, LA, Seoul, Hong Kong, or Beijing. As described in both Part I and Part II, Taiwanese customers, regardless of age, embrace hot pots and BBQ. They do not mind the heavy taste at night as long as the food being offered is good and authentic, hence the rise of all these hotpots and Japanese BBQ restaurants. Those popular Japanese BBQ houses are extremely trendy, the foods pair well with alcohol, and adolescents and young adults like to be associated with that atmosphere at night. As a reference point, Mitsui, the most successful Japanese restaurant brand in Taiwan dining history, introduced its flagship and the most high-end restaurant in Taipei's Xinyi district near 101 two years ago. At the beginning, the restaurant insists on offering a different genre of Japanese food, lighter, colder, and without any hot pot soups. The restaurant eventually reverted back to their old ways to offering hot pot soups, because too many customers were demanding it. For Taiwanese customers, hot soups that come in pots signify a conclusion to meals, and without them customers would feel they miss an important portion of their dining customs (Hot pot markets in Taiwan have grown to more than NT\$10 billion (~US\$333 million) by December 2012, and many brands such as 85c and convenient stores 7-11 and FamilyMart are introducing hot pot offerings).

So in addition to the Bibigo offerings, I do hope CJ could help me design additional dishes that are listed in Appendix I, which I think are fairly standard in Korean cuisine, with a modern twist and presentations. Some of the dishes I believe already can be found in menus of CJ's Tofu House and Cheiljemyunso (I understand these are newer brands as I saw them personally in the CJ Foodville Seoul headquarter). These dishes should be authentic in taste and aesthetically pleasant in their presentations. I also welcome additional suggestions that CJ has on menus in addition to the ones that I have written down since CJ is the ultimate expert in food industry. Ideally, if all goes as planned, when the design is done, I would want to visit Seoul to do the tasting and finalize all the dishes. Then I would want to invite a CJ chef and a manager to come Taiwan at least three or four months prior to actual restaurant openings for a long stay to train up the chefs and staffs. I can arrange lodging accommodations, Korean translator, as well as chef training facilities or other Taiwan specific issues prior to their arrival. I personally understand in order for this concept and restaurant to materialize, I need CJ's help. I believe there are many ways that we can collaborate and I am open to further suggestions.

Target size of business (# of shop opening, revenue) in Taiwan

Starting with one restaurant in Taipei City or New Taipei, I want to be able to make all the principal investment back for all shareholders in hopefully one and a half year or less. The first restaurant should be mid-sized with around 90 to 100 comfortable seating available in total, including a bar and a room or two. Depending on the success of the first restaurant, I will open the second one after we have established firm footing for the first restaurant. Eventually, I want to have at least five restaurants in Taipei City and New Taipei, before expanding down south to Central Taipei and Southern Taipei.

I have done a quick table turnaround analysis for TTFB, the Thai restaurant chain mentioned in Part I. The analysis is below:

TTFB Example:

Assumptions:

- Average dining price: NT\$650 as mentioned in Part I
- Average seats per restaurant: 90
- 30 days in a month, 12 months in a year
- Facts: 2011 annual revenue of NT\$1,531 million

Calculations:

NT\$1,531 million of annual revenue / 30 shops = NT\$51 million of revenue per store per year.

NT\$51 million / (12 months * 30 days) = NT\$141,666.7 revenue per day

NT\$141,666.7 revenue per day / (90 seats * NT\$650 average dining price) = 2.42 rounds of customers per day.

So TTFB , on average, turns table around 2.4 times a day, which is good but not overly impressive, considering the fact that it opens during both lunch and dinner. Conservatively, let's assume I can turn table at least 2 times a day, with average dining prices of NT\$750 and 90 seats available in the restaurant. The table revenue per day would be $2 * NT\$750 * 90 = NT\$135,000$ (~US\$4,500). This is the min daily revenue that I expect from the new restaurant. Annualizing the daily revenue would yield roughly US\$1.6 million per restaurant per year.

My goal is to have one new restaurant in Taiwan each year for the next six or seven years. I believe after the first few restaurants are set up and a central kitchen and SOP are established, it will be easier and faster to set up new restaurants. I want to emphasize that I do not want to overly expand at the beginning, as the restaurants that I want to roll out should represent quality, delicacy and class. I do not want to open a cheap chain restaurant brand and overly expand. The restaurant should be unique and special and somewhere that customers could enjoy the food and relax with friends, as supposed to typical chain restaurants that lack the human characteristics. I want to make sure each restaurant has established its firm footings first, before expanding into other parts of Taiwan and potentially China. Depending on the existing restaurants' development, performance, and taste and preference of customers, the newer restaurants can come in various formats, some could be more casual, and some could be trendier. The direction and target of the future goal can obviously be modified, depending on the result of our first restaurant.

V. Business plan – people & operations related:

My people in the management – key traits and strengths

-Kai Wei Kevin Chen (myself)

Prior to attending master programs in Tsinghua and MIT, I worked for four years in financial industry at Goldman Sachs Hong Kong. I am organized, meticulous and I get job done efficiently with quality. I have a lot of experience working in groups, whether it was in schools or at work, and many times take the leadership and coordination role. I am proactive, responsible, and always deliver on whatever tasks that I promised. As a reference, I worked extensively with Pious in team work throughout the first year at Tsinghua, so he knows my characteristics and working style well. Owning and running a restaurant business has always been my passion, with the right timing and environment in Taiwan now, I want to embark on this venture after graduation and am convinced the Korean restaurant idea will be a success. I envision myself being in charge of the overall strategy and direction of the firm.

-Titan Huang

Titan Huang is a friend of mine and the lead manager of a famous Chinese restaurant FIFI in Taipei. FIFI was started off and solely owned by a famous local Taiwanese jewelry and luxury female clothing designer as a side business and has achieved tremendous success. Titan started off as the vice manager in Sofa, which was a lounge bar started by the same founder in 2002. He then later joined FIFI as the lead manager in 2004. Titan has been with the FIFI group for more than ten years and understands the restaurant industry in Taiwan well. He has had experience setting up new chains of FIFI related restaurants (currently three locations and four restaurants in Taipei) as well as other restaurants owned by his acquaintances. Titan is trustworthy and responsible. After discussing and sharing my Korean restaurant aspiration with Titan, he is keen to the idea and will likely join when the plan materializes. Compensation packages need to be right, however, as he does want financial security. Titan currently still works for FIFI as special assistant to the founder, and oversees the operations and strategy directions of all four FIFI related restaurants.

-Others

I have other acquaintances and have access to people who have restaurant experiences. However, I have yet to discuss much with others because many details, such as the format of collaboration with CJ have not been finalized. I do not want to share too much information with others when many details still need to be ironed out first. I did kick off conversation with a Korean speaking Taiwanese acquaintance who would be willing to come over and do administrative and translation tasks. I have also briefly mentioned to an acquaintance whose family runs a culinary training school in Taiwan, and he's willing to help on sourcing employees and letting us borrow (for a fee) his cooking school for training purposes. All these are just verbal conversations and nothing is set in stone. When the process goes further and matters are more concrete, I am confident I can find and attract the correct people for

the correct jobs. I am open to any suggestions by CJ on the specific type of personnel that I need to run the Korean restaurant, and I am certain I have source and access to them.

Key locations in Taiwan. Feasibility on sourcing adequate rental site in key locations

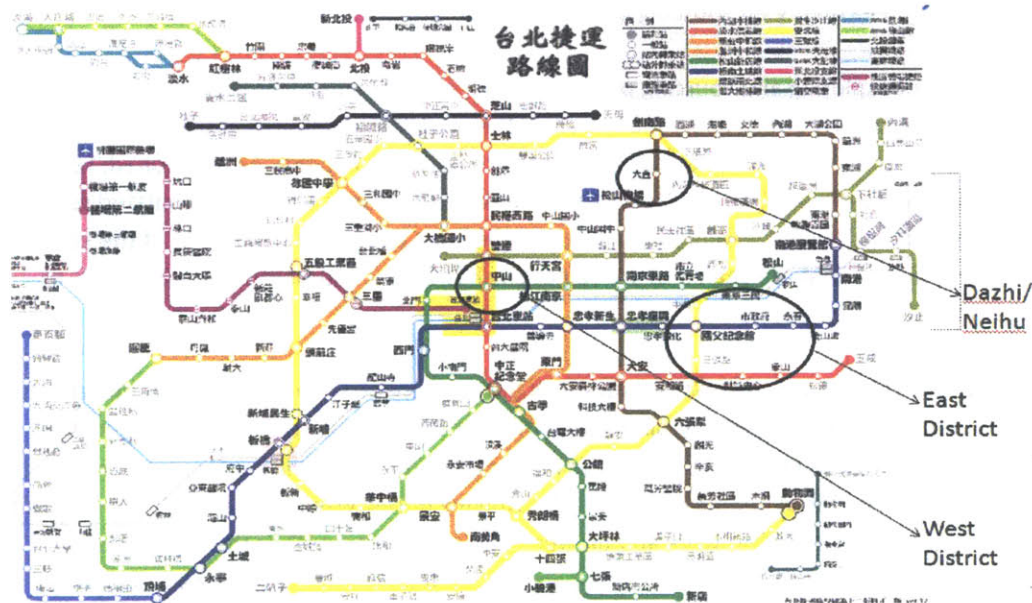
I have done quite a bit of exploring and sourcing potential rental sites in Taipei over the summer and winter months of 2012 and early 2013. I personally walked the available rental sites at the time with real estate brokers and got a lot of information regarding the rental environment. As mentioned, I want to start the first restaurant in Taipei City and New Taipei. Northern Taiwan is the most populated region, and within Northern Taiwan, Taipei City and New Taipei are the most populated cities. Out of the entire 9,092,557 Taiwan population that are age 20 to 44, Taipei City has 10.7%, and New Taipei has 17.7% of residents that falls within the category.

Taipei City is the ideal place to open the first restaurant as this is where all the adolescents, young adults, and affluent customers hang out. Taipei City, specifically the East District (東區) is the most expensive and the most vibrant area where Taipei 101 and all the best restaurants, shopping centers, and night clubs are located. There are a lot of people in East District working during weekdays, and a lot of people shopping and dining in East District after work and on weekends. East District leads the trend and is equivalent of being the hottest spot in Taiwan. It has been the landmark of Taiwan for years and will likely stay that way for many years to come.

Besides the East District, other populated areas are Dazhi/Neihu and the West District (西區), which are all cheaper but less ideal due to their relatively location inconvenience. Dazhi/Neihu is a new area, but features more of a residential and office environment, instead of recreational settings. People either live in Dazhi and Neihu or only go there to work and leave after work. All restaurants located in Dazhi or Neihu must be destination restaurants, because there are simply not much other things to do around the area. About ten years ago there were many that believed Dazhi and Neihu will be the next hot spot with a new mall, movie theater and subway newly built or under construction. However, while residential prices have gone up substantially and many corporate offices moved over due to cheaper rent, the area still can't command enough nonresident crowds after office hours and on weekends. The most popular Korean restaurant in Taiwan nowadays is Samwong, and it is located in Neihu. Many residents and Korean customers living nearby do fill up the restaurant regularly.

The West District, which used to be a popular location during my parents' childhood time, is still populated, but has become more of a hangout spots for teenagers and students. Historically, the West District was the center of Taipei, and surrounds Taipei Main Railroad Station. However, as time passes, newer development all moved toward the east side of the city, making this area around Taipei Main Railroad Station as the West District even though geographically it is located in the center of Taipei City. The area has less of my targeted customers and could take thirty minutes or more to get to Taipei 101 and the trendiest spots in Taipei. Below is the map of subway system in Taipei City, and I have circled the three key locations that I have mentioned.

Exhibit 11: Taipei Subway System and Key Locations



Source: Subway map from Taipei Metro Official Site

In New Taipei, a newly formed city combining many other formal smaller towns that surround Taipei City, there is one newly built shopping center (Mega City 大遠百). In the past, many from these smaller towns outside of Taipei City come into Taipei City to do their weekend recreational and luxury shopping and eating. With the establishment of this new and big shopping mall, many New Taipei residents have a new place to go. There are a lot of people in Mega City on weekends, and if we were to set up a restaurant in New Taipei, Mega City or anywhere around it would be ideal.

Based on the information I saw and collected this year, it is not too difficult to source adequate rental sites as long as enough time is put into finding potential sites. Rental sites availability via location and price are transparent through many real estate agencies, as well as real estate online websites. Great locations come up sometimes but are usually taken quickly, so it is imperative to keep a close eye on market movement. It is not difficult to obtain restaurant operating licenses, as long as the location is not in old residential areas, and many landlords do welcome restaurants to occupy space. There are three main types of potential sites, either within malls, on main streets, or in alleys behind those main streets. There are positives and negatives within each of the three categories. For example, if within a popular mall, foot traffic is almost guaranteed and customers are less choosy when they are already inside the mall and have limited dining options. However, restaurant hours must be opened accordingly to the mall hours, and rent will be high or a high percentage of commission must be given to the mall. If on major streets, especially first floors, rent will be expensive but the restaurants can have more flexibility in decorations, opening hours...etc. If behind alleys, rents are usually cheaper, but sites are

smaller and visibility is worse than the other two options. A lot of the Japanese yakiniku, ramen and afternoon tea places are located in small alleys behind main streets, but are still able to draw large crowds. Street and alley locations typically have more liquid and faster store movements relative to malls, but this generalization does not always apply and really depends on time and opportunity. If we decide at the end to start in malls, then conversations and negotiations on terms need to start earlier. I am sure these three categories and each their strengths and weakness apply to all the rental sites in Asian cities.

From my visits to many actual sites and based on the primary researches I have done, the biggest obstacles come with the rent and size. At the end of the day, the better the location, the higher the rent. And the lower the rent, the more sacrifice the restaurant has to make in terms of visibility. Also, for the restaurant size that I envision of having, which has around 90 comfortable seating, including a room, a bar, and open kitchen, would need roughly around 100 pin (坪), which is 3,600 square feet (in Taiwan, pin is the metric used for real estate, and 1 pin = 36 square feet). In Taipei, 100 pin single floor rental sites are very rare, especially in alleys. Many 100 pin rental sites are divided up into multiple floors, which is detrimental to the overall design in my view. Availability of these 100 pin single floor units do exist, but are not as abundant as smaller units. In sum, after establishing a clear time table for restaurant opening, adequate time is needed in advance to research so we can seize the right locations when they come up.

Site rental cost per square feet in key locations

In Taipei City West District, first floor rental sites on major streets are extremely expensive and out of the equation. A site on Zhong Xiao East Road (忠孝東路), the busiest street and right in the middle of West District in Taipei city, a first floor location would cost around NT\$6,000 per pin per month (~US\$200 per 36 square feet, or US\$5.6 per square feet) or even higher. This translates to NT\$600,000 (~US\$20,000), a cost that is simply too much for a new restaurant to bear. Besides first floor locations, I have also looked at some of the second floor and basement units on big streets. Personally, I am fine with either second floor or basement units, as long as the site is one entire floor of roughly 100 pin, and has its own separate entrance. A lot of famous restaurants in Taipei City (such as high end hot pot Orange 橘色, luxury teppanyaki Ben 犇, Japanese casual dining Watami 和民) are actually located in basements, which shows that Taiwanese customers do not mind going down to basement to eat as long as ventilation system and food are good and restaurant is clean.

A spacious 2nd floor site that I looked at and really liked was asking for roughly NT\$3,000 per pin (~US\$100 per 36 square feet, or US\$2.77 per square feet) at the time, but I believe it is possible to get it down to around NT\$2,500 per pin (~US\$83 per 35 square feet, or US\$2.31 per square feet) after negotiation at similar sites. Many quality 2nd floor units with good price do come and go fast, so quick judgment needs to be made when the right site comes up. Basement units on streets are less abundant and are usually cheaper than second floor sites.

Alley units are usually smaller and divided up into two floors, either first floor plus second floor, or first floor plus basement. Some basement units are larger and do offer one single floor of space. Alley units are definitely cheaper than street units, and come with price between NT\$1,500 to NT\$2,000 per pin (US\$1.39 to US\$1.85 per square feet). Some alleys in Taipei City West District are full of young fashion clothing and shoe shops, as well as restaurants, so adolescents and young adults do hangout in those alleys. In particular, there are three popular alleys behind Zhong Xiao East Road (忠孝東路) in the east district. These three alleys do have a substantial price premium and could be as expensive as major streets. Besides these three alleys, however, typical alleys would be cheaper than street options. I have two acquaintances who did open up their own respective restaurants in alleys behind Zhong Xiao East Road (忠孝東路) and have achieved tremendous success (one is Japanese yakiniku shop Da Wan 大腕, and the other is luxury sushi shop 吉兆). So alley units are also potential sites if there are enough crowds in the area.

Pricing for mall sites vary by malls, and vary by stores even within the same mall. Many restaurants open their shops in streets and alleys first. As they become popular, many malls will naturally go to them to lure those restaurants to establish presence inside malls. Mall units are newer and bigger in size.

Typically, before moving into malls in Taiwan, they would require a formal business proposal to determine whether similar products already exist within the mall. The proposal does not need to be long, but need to have a clear indication of company strategy as well as the products selling and their pricing. Negotiation process is the tricky part. The key items that need to be negotiated include, fixed cost vs. commission vs. mixture of both format, SG&A such as decoration costs, fees associated with marketing, cleaning, utilities...etc, as well as whether to participate in mall discounts and cash refund and format of receipts. Various other clauses also need to be addressed upfront with malls to avoid disputes in the future. Some stores within malls are charged a flat fee or a commission up to 30%, whichever is higher. Some stores are charged a commission between 18% to 28%. In general, a lot of negotiations are needed upfront if establishing presence in malls.

The above pricing range mentioned for all three types of sites, main street, alleys, and malls, are all based on 2012 end of year market price for Taipei City East District. Other areas in Taipei City and New Taipei will be cheaper. I have summarized the below pricing range for the three categories in the below Exhibit.

Exhibit 12: Typical pricing for Taipei City East District

Type of Sites	Price	Strength	Weakness
Streets 2 nd Floor or Basement	NT\$2,500 to NT\$3,000 per pin (~US\$2.31 to US\$2.77 per square feet)	-Sign can still be seen for pedestrians -Cheaper than first floor options and malls -Flexible opening hours	-Ventilation system is important -Must have separate entrance or else difficult to attract customers

Alleys Behind Main Streets (excluding those three super popular allies behind Zhong Xiao East Road)	NT\$1,500 to NT\$2,000 per pin (US\$1.38 to US\$1.85 per square feet)	-Cheaper rent than main streets -Target customers gather spots	-Less visibility -More difficult to find bigger sites
Popular Malls	Base + commission that varies from 18~30%, with various other costs that need to be negotiated	-Good foot traffic -Avoid all restroom problems -Customers are less choosy when limited restaurant options are available -Bigger units available	-Rigid opening hours -Must play by the mall rule book – similar products can't exist within same mall. Fixed cost vs. commission. Mall discounts participation -Limited space available

Sourcing raw materials: supply chain structure on sourcing rice, vegetables, meats

Most Taiwan food suppliers are specialized in their own specific type of products, except some larger companies that offer more options. For restaurants, beef, chicken, pork, vegetables, rice and drinks all come from different suppliers. Based on my understanding, the typical sourcing step by step process starts with deciding on menu, determining all ingredients needed, finding suppliers, comparing quality and price from sample, and finally deciding on suppliers. For each food category, whether it is beef, chicken, pork, vegetable or rice, there are at least a few established suppliers available. For example, Mayfull (美福肉品) is one of the leading and one of the most well known suppliers for imported beef and pork in Taiwan. The company offers beef and pork of all types and quality for both western and eastern restaurants. We just have to be specific on meats' origin, parts, cuts, quality and portions, Mayfull should have the products available. Large companies like Mayfull do have other options such as seafood available, but there are other seafood suppliers that we can compare price and quality with. Usually, between contacting suppliers and checking on sample, only one week of time is needed. After a supplier is chosen, a chef and a procurement person need to cosign and check on the quality and quantity of all future supply delivery. Sub standard products can be returned and redelivery would be necessary.

I am not certain which ingredients in our menu need imports from Korea or which specific imports are not currently available in Taiwan. I imagine there are some seasonings, Korean rice or some vegetables for side dishes that would need import to present authenticity. Ideally, the less imports the lower the food cost. At the same time, I also do not want to compromise authenticity and tastiness too much if no suitable local substitution is available. CJ is the expert in this area, and I can work together to determine sourcing issues once CJ's chef finalizes the list of ingredients needed for our menu.

Sourcing chef & service people: feasibility on sourcing quality service people

For the first restaurant that serves around 90 seats and lunch/dinner, based on my conversation with Titan, we need a total of twenty people, six in kitchen, four full time waiters/waitress and ten part times. Additional part time chef or two is needed for late openings on Friday and Saturday, serving more simplified dishes. Many restaurants in Taiwan do face the problem of lacking quality service people, especially part times. Full time employees with experience are usually available if the compensation package is right, as there are many full time people working in the F&B industry. The bigger problem arises with the part time employees. Majority of part time employees are students or recent college graduates who do not have the right attitude of taking F&B job professionally and seriously. They take days off during exam periods, and do not view F&B job as their long term career goal. Many times, this is employees' first job in life, so restaurant trainings and professionalism need to be taught. Turnovers are high, sometimes even as short as two weeks. The high turnovers and time spent on recruiting and training do create a substantial cost for many restaurants, as full time employees cannot focus on other tasks.

Many restaurants nowadays attempt to work with culinary/restaurant schools for sourcing employees. Culinary schools place students in restaurants as part of students' required credits for graduation. These employees are cheaper, more dedicated as it is part of their academic credits to work and gain actual restaurant experience. These employees also stay longer because each placement assignment is at least six months long, which is much longer than usual restaurant part time employee term. The culinary schools do pick and choose however, and usually will not work with restaurants unless they have a certain scale and size. However, with CJ's brand equity, endorsement, and our long term vision, I do believe we can make a compelling pitch to the few culinary schools in Taipei. Culinary school option is the cheapest and most stable way to fulfill the part time employee spots.

Regarding chefs, there are not too many experienced chefs who can cook Korean good, due to the general lack of authentic Korean restaurants in Taiwan. Majority of chefs in Taiwan have Chinese cuisine or Japanese cuisine background. Even if they have experience in working at Korean restaurants in Taipei, the chances are they are not very good, given the standard of most Korean restaurant is still subpar. However, a little bit of prior Korean food exposure will help. So when it is time to hire chefs, we should select those that have experience working for a few more well known Korean restaurants in Taipei, to avoid starting from scratch when teaching.

One issue that I want to point out is that when hiring full time employees, we should avoid single female personnel in late twenties or early thirties. In Taiwan, sabbatical maternity leave granted for new mothers can be as long as two years. Within the two years leave, the mothers' headcount cannot be removed, and a major portion of their normal salary still must be paid for six months by government if they decide to come back after the maternity leave. After the initial six months, the rest of the two years' health and labor insurance still must be paid by government. The major cost to any firm is that they have no choice but to hire an additional employee to makeup the work missing. However, once the employee on maternity leave comes back, the employer cannot fire the employee without a

legitimate reason, or else a discrimination fine will be sanctioned. This is not my personal sex discrimination against single female professionals in their late twenties, but a serious problem that many corporations do face in Taiwan. So when hiring female full time employees, it is best practice to look for married female with children already. They tend to be more focused and career driven, which is important for overall employee morale.

Financing

Below is an estimate of the upfront cost that we need. The restaurant should have trendy and vibrant interior design and decorations, a bar, a semi open kitchen, as well as a room. Total of around 90 seats should be available.

Exhibit 13: Upfront cost estimate

Items	NT\$	US\$
Interior design & decoration	4,000,000	133,333
Kitchenware & all kitchen facilities	1,500,000	50,000
Eating utensils, plates, bowls, cups, pots	500,000	16,666
Miscellaneous: phone, POS system with 3 monitors, computers, printer, gas application, speakers, employee uniforms...etc	800,000	26,666
Working capital (3 months)	4,000,000	133,333
Total Needed	10,800,000	360,000
Amount To Raise	15,000,000	500,000

Note: The above numbers are for estimate purposes only and actual numbers could vary

While US\$360,000 is an estimate of the amount that needs to be spend upfront and saved for working capital purposes (three months), it is prudent to raise around half a million US dollar to ensure enough cash sits on balance sheet for ongoing and unexpected needs. As detail of total investment splits still need to be determined, we can discuss more details as we move along the process.

Plan to respond on regulations and other risks

The key regulations in F&B business that must be met are restaurant operating license, fire hazard prevention and labor law requirement & insurance policy, as written in Part I. I will conduct everything legally and work with lawyers to adapt to regulation changes whenever necessary. Similar to all other industries, there are still many risks that could come with daily operations. For example, there could be rise in raw material costs, rent, employee turnovers, customer complaints, unexpected outage of water or electricity...etc. All of these should be fairly standard issues that experienced restaurant managers have faced in the past. For example, Titan mentioned whenever water unexpected go out during operating hours in old buildings, employees must immediately go to nearby groceries to purchase ready to drink waters while wait for maintenance crew arrive. Whenever customer complains about a dish or service, we should immediately pay attention and offer customers a free dish. There are many issues that could rise throughout the day to day operations. We must hold the upmost standard on food

quality, safety, service friendliness and environment comfort level to ensure customers are satisfied. Prior to restaurant opening, we must establish a list of protocols facing each situation. Training must be given properly so whenever situations occur, employees would know exactly what to do.

Conclusion

Taiwan, with only 23.2 million people, is a market for F&B business. Taiwanese appreciate eating, and go out of their ways to explore and eat good food. Customers embrace all genre of food, from Michelin star chef restaurants to street snacks. As long as the food is good, regardless of cuisines, customers will come and eat, and even wait in lines. The success of many Taiwanese restaurant F&B business have also influenced China, as many of these restaurants successfully expanded to the mainland, where many welcome and adore Taiwanese style. With a lack of authentic Korean food and a rise of Korean culture popularity, Taiwan needs a real contemporary Korean restaurant. This is a great opportunity for us to enter the market. Together, we can create something very special in materializing collaboration between Korea and Taiwan, and brining the new generation of authentic CJ Korean food to the island and beyond.

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15. 李欣, (2013, January). 臺商瓦城結盟金鷹百貨, 經濟日報, Taiwan Economic Daily News Press Release, <http://big5.huaxia.com/tslj/flsj/cy/2013/01/3160146.html>
16. Subway map of Taipei Metro (2013), Taiwan Metro Official Website

Appendix I

Selected Menu – To be discussed and expanded

Appetizers

Stir fried rice cake (spicy and non spicy)

Bibigo rice cake with sweet potato

Jap jae

Authentic side dishes

Salad

Kim bob

Gyoza

BBQ + Grilled (cooking 90% done in kitchen)

BBQ beef: short rib / beef tongue/ beef cubes

Grilled pork

Grilled fish

Grilled vegetable

Bulgogi

Soup + Pot

Soon tofu jigae

Kenjiang jigae

Kimchi jigae

Kal bi tang

Sa rang tang

Clear soup hot pot

Hot pot with hot dogs and instant noodles

Dry pollock fish soup

Ginseng chicken

Dulbegi bulgogi

Dishes

Kim chi pork

Kal bi jim

Boiled pork with lettuce wrap

Stir fried squid

Stir fried mushroom and vegetable

Stir fried instant noodle with pork and vegetable

Rice + Noodle + Congee

Bibigo bibimbop offerings

Kimchi fried rice
Cold noodle (spicy and non-spicy)
Abalone congee
Beef/Vegetable congee
Beef noodle

Others/Snacks

Korean fried chicken
Oden
Korean desserts