



LEI GARDEN RESTAURANT

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ABSTRACT

This project's objective was to assist the owners of Lei Garden, a popular restaurant located in Washington D.C's Chinatown area, in making an important decision regarding the future of the restaurant. Lei Garden's primary owner, Ms. Wang, had received a proposal to buy the restaurant for \$6 million. While this tempting proposal was already on the table, Ms. Wang wanted to make sure that her other short-term and long-term objectives were also satisfied. She had several options such as selling, renovating, reinventing, waiting and selling, and partnering with a local business owner to build a commercial building. We used a decision support application called Expert Choice to model the decision and to derive priorities for the objectives and alternatives. Using the Analytical Hierarchical Process, the results derived recommended reinventing Lei Garden. This paper will discuss the modeling process in detail and conclude with the client's feedback on the recommended course of action.

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I. CLIENT: LEI GARDEN RESTAURANT

Client Contact Information

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629-631 H Street, NW
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Client History

Golden Investment (property title) purchased Lei Garden property for \$1.6 million in 1998. The new primary owners Julie Wang and her 3rd brother Jeff Wang held 80% and 20% ownership respectively. Their initial intention was to profit from reselling the property within a 6-month period. However due to an economic recession, Julie and Jeff were unable to do so. Instead, they proceeded with \$75,000 in renovations and opened a restaurant under the business name, CWH Inc.

Jeff Wang realized that he lacked experience in the restaurant business. He solicited the help of local restaurant owner, Charlie Chiang without Julie's acknowledgment. Their negotiations resulted in an unwritten partnership between the two parties. The deal was a bit lopsided. In exchange for using Charlie Chiang's name, Jeff agreed to give Charlie Chiang 15% of CWH's business ownership. In addition, Charlie was not liable for any losses and was not required to put down any capital. The restaurant was now operating as "Charlie Chiang's Grande Café."

The partnership did not meet the Wang's expectations. Julie decided to change the restaurant's name to "Lei Garden" and also hired new restaurant staff. This resulted in a lawsuit between the Wangs and the Chiangs. To make matters worse, the restaurant continued to do poorly. For a six to seven month period, Julie had to provide \$20,000 to \$40,000 per month to keep the restaurant afloat.

After a long court battle of 2 ½ years, both parties agreed upon a settlement. Charlie received \$400,000 compensation for his share of "ownership." By this time, Julie and Jeff also had conflicting interest. Julie began negotiations for buying out Jeff's share. The transaction was completed in 2003 in the amount of \$700,000.

The restaurant is now under the partnership of Julie Wang, Steve Wang (Julie's eldest son), and MK Wang (Julie's 4th brother). The ownership percentages are 80%, 10% and 10% respectively. Under their collaborative supervision, Lei Garden serves Schezuan, Cantonese and Hunan cuisines via four main dining options: menu dining, dim sum, take-out services and delivery services. The 15,000 square foot restaurant boasts a maximum dining capacity of 400 people, and a restaurant staff of 30 employees rotate daily to provide service to both lunch and dinner customers.

II. CLIENT SWOT ANALYSIS

Strengths: capabilities or resources that the organization has that could be used to improve its competitive position or financial performance

- Food variety
 - Cantonese, Mandarin, Hunan and Szechuan
- Eating options
 - Dim sum, menu dining, delivery, take-out
 - “The restaurant industry is an industry of choice. Restaurants provide consumers with a wide variety of foods in a wide variety of portion sizes because that is what consumers want.”
- Convenient location: across the street from Chinatown/Gallery Place Metro
- Strategic location: restaurant is situated in a developing business, commercial and residential area
- Large space: restaurant is approximately 15,000 square feet
 - With seating capacity of 400, there is the ability to seat large audiences, host parties or small conferences
 - Large size of restaurant allows owners to create different dining atmospheres that can appeal to the various sub-segments of their target audience.
- Good restaurant reputation – especially dim sum
 - Awards/Articles:
 - Zagat Survey 1999 "One of Chinatown's best bargains..."
 - Aug 2001 "Great Dim Sum & Good Buffet in Chinatown", Dining Out section, Washingtonian
http://www.washingtonian.com/dining/profiles/leigardenaugust_2001.html
 - 2002 Washingtonian Best Bargain Restaurant Award / 2002 Washingtonian Restaurant Award Winner
 - Jan 2002 Washingtonian 100 Very Best Restaurants
http://www.washingtonian.com/dining/profiles/leigardenjanuary_2002.html
 - June 2002 Washingtonian Cheap Eats
http://www.washingtonian.com/dining/profiles/leigardenjune_2002.html
 - 2003 Washingtonian Best Bargain Restaurant Award
 - June 2003 Washingtonian Cheap Eats
<http://www.washingtonian.com/dining/Profiles/leigarden.html>
- Restaurant under new ownership
 - New owners are motivated and aggressive
 - New owners are open to change and willing to step out of comfort zone

Weaknesses: capabilities or resources that may cause the organization to have a weaker competitive position or poorer financial performance

- Unappealing dining atmosphere
 - Old, out of date, poor design
- Individual plates have inconsistent food quality
- Operational Weaknesses
 - No CRM system in place
 - No past accounting records
 - No up selling by wait staff
 - Language barrier between customers and staff (staff speaks Chinese, majority of customers speak English)
 - Ineffective and inefficient use of restaurant space (entire 2nd floor is underutilized)
- Distribution Weaknesses
 - No tracking of popular dishes to capitalize on bulk purchases
 - No marketing resources
 - No promotional resources
 - No communication with customers
 - No method to handle or take complaints/compliments
 - No tracking of current or new customers
 - No website for ease of information
 - No brand imaging
 - No strategic planning

Opportunities: trends in the business environment that the company could capitalize on

- Chinatown is a quickly growing area
 - New construction is expected to attract more people to the area → direct market to new visitors/residents
- Renovations
 - Many restaurateurs are reallocating monetary resources for new equipment, expansion and remodeling
 - Lei Garden has the monetary resources to renovate restaurant and make more appealing to target audience

Threats: trends in the business environment that could negatively affect the company's performance in the future

- Increased competition from influx of popular American chain restaurants
- Seasonal trends cause inconsistent profits

- Seasons of the year (i.e. more foot traffic in the summer as opposed to winter)
- Tourist influx into the D.C. and/or Chinatown area (i.e. the potential for revenues exist when more tourists revenue to D.C., especially the Chinatown area)
- Events of the MCI Center, convention center, and theater district (i.e. business picks up before/after events)

III. CHINATOWN: CULTURAL AND HISTORICAL CONSIDERATIONS

Chinatowns are popular tourist attractions throughout many major U.S. cities. In the late 1800's and early 1900's, Chinatowns were formed for a more important reason than tourism. Washington, D.C.'s Chinatown was created as a self-defense mechanism to shield Chinese immigrants from the hostility and discrimination experienced in the late 1800's. By establishing ethnic enclaves, Chinese immigrants could find comfort and security and could more easily adapt to a life away from home. These ethnic enclaves provided familiar foodstuffs, culturally similar languages, and social and religious offerings as their home country. Chinatown soon became an area where the Chinese culture helped to support a vast number of Chinese immigrants and Chinese Americans.

Today, it is common within Chinatown to find a loyalty among its residents. It is a habit and expected of Chinese owned businesses, to hire Chinese residents within Chinatown – whether they speak English or not. Chinese owned businesses that do not follow this unwritten rule are highly scrutinized and often pushed out of the tight circle created among Chinese residents.

Chinatown D.C. has also experienced an unsteady economy. Since its establishment in the late 1880's, Chinatown D.C. has seen its share of economic instability, redevelopment, racial tension and gang street violence. The street violence threatened the tourist population, which was critical for D.C. Chinatown's economic success. In the 1970's, D.C. authorities decided to address the decline in Chinatown tourism by redeveloping the area to make it more attractive to tourists.

Unfortunately, the redevelopment of Chinatown caused more harm than good. Construction depreciated the value of the area and pushed many of the wealthy and influential families out of Chinatown leaving room for poorer, uneducated Chinese immigrants. To battle the dangerous changes being made to Chinatown, Chinese officials implemented plans to create housing for the current population of immigrants, and continued to attract tourists by creating a "Chinese feel" to Chinatown with one of the U.S.'s largest Chinese archways. However, the Chinese archway and new housing were not enough to prevent Chinatown from taking that fateful path toward becoming

“an ethnic ghetto, the stopping-off place for newly arriving immigrants, impoverished financially and linguistically, and the dumping ground for old Chinese who never attained the American dream.”

Chinatown was promised a savior in the late 1990’s with the construction of the MCI Center. It was hoped that this new addition to the neighborhood would clean up the streets and raise tourism in the area. Although the MCI Center brought in additional tourists and local residents upon its completion in 1997, it did not succeed in revitalizing Chinatown. Rather, it pushed Chinese owned businesses out, making room for new, more Americanized businesses which better targeted the audience of the MCI Center.

In the past year alone, Chinatown has undergone major development activity. The completion of the “Gallery Place” project on the corner of 7th St. and H St., NW by Akridge and Western Development is probably the most anticipated due to the quality retail, restaurant, residential and office space it is to provide. Residents and visitors alike can flock to Gallery Place to meet their business, shopping, dining, entertainment and living needs. This groundbreaking downtown development will include:

- 230,000 SF of Class A office space
- 250,000 SF of prime retail space including a 14-screen Regal Cinema
- 192 luxury residential condominiums
- 700 parking spaces in a secure underground garage

IV. LEI GARDEN: NEXT STEPS...

Project member, Andrea Bautista, is a very close friend to the Wang family. For the past year, she has observed how the Wangs regularly contemplate the future of their restaurant. When requested to do a real world choice project for Dr. Forman’s Executive Decision Making class, she offered to focus her efforts on Lei Garden in hopes to assist the family with their decision.

A. Goal

The overall objective for our project is to select the best option for Julie Wang as it relates to her business, Lei Garden Restaurant.

B. Objectives

We have identified the following as Julie Wang’s objectives as she decides on the future of Lei Garden Restaurant:

- **Financial Implications:** This objective has been broken down into 3 sub-objectives: long term financial stability, immediate financial gains and low debt.

- *Long Term Financial Stability:* In 10+ years, Ms. Wang would like to feel financially secure and hopefully improve (if not maintain) her current standard of living.
 - Due to the uncertain impact of the Gallery Place project, we have factored in the possibility of its success or failure into our EC model.
- *Immediate Financial Gains:* In 1 to 3 years, Ms. Wang would like to increase her cash assets.
- *Low Debt:* Ms. Wang would like to limit her overall debt ratio to 30% or less of her assets.
- **Keeping Business in the Family:** It is important for Ms. Wang and her immediate family (children) to have majority control of their assets.
- **Perceived Success by Others:** Ms. Wang is concerned about her reputation in the community. She wants to be perceived as a successful businesswoman.
- **Least Time and Effort:** Ms. Wang wishes to limit her time spent in the US, as well as her family's time and obligation of being physically in the restaurant on a day-to-day basis.

C. Alternatives

We have identified the following available alternatives that can possibly achieve the goal of this project:

- **Status Quo:** Ms. Wang can keep the restaurant running as is, without any changes to day-to-day activities.
- **Renovate:** Ms. Wang can invest money to update the building's structural deficiencies and improve internal management processes. However, the restaurant will retain the same cuisine and delivery. The approximate time to complete renovations is 3 months at a cost of \$250,000.
- **Reinvent:** Ms. Wang can invest money to reinvent her restaurant. This may include a possible change of cuisine and delivery, major structural and aesthetic improvements, better internal management processes, new branding and recognition and the targeting of new clientele. The approximate time to complete the restaurant "reinvention" is 1 year at a cost of \$1,000,000.
- **Partnership:** Ms. Wang can sell 50% of the restaurant property to a local business entrepreneur for approximately \$2.5 million. Both parties can then embark on a redevelopment project that will include a 10-story commercial building. The first 2 floors would remain a restaurant.
- **Sell:** Ms. Wang can sell 100% of her restaurant assets to a local business entrepreneur for approximately \$5 million.
- **Wait and Sell:** After 6 months to 1 year (depending on the Gallery Place opening and related market appreciation), Ms. Wang can sell 100% of her restaurant assets to a local business entrepreneur. She optimistically predicts a selling price of \$8 million.

V. EXPERT CHOICE: LEI GARDEN EC MODEL

Our client Ms. Wang faces several feasible alternatives, and she has a clear set of prioritized objectives. These objectives represent what Ms. Wang hopes to achieve in selecting the final option.

We used Expert Choice to model this complex decision, and help our client make a well thought out decision. Expert Choice is based on the Analytical Hierarchical Process (AHP), which assists in modeling a complex problem in a hierarchical structure showing the relationships of the goal, objectives and alternatives. This structure facilitates the derivation of ratio scale measures (weights or priorities) by using the AHP pairwise comparison process.

The Pairwise Comparisons were made on 2 levels:

- 1) Importance –comparing objectives with respect to their relative importance
- 2) Preference – comparing the preference of an alternative with respect to an objective

These pairwise comparisons represent the relationship between the two “factors” that are being compared, and help to “derive” relative importance. The pairwise comparisons also help to establish relationships between the goal, objectives and alternatives.

A. Creating the EC model

We began creating our model by first creating a main node for our goal. We then entered all the alternatives that are available to Ms. Wang in the alternatives window on the right. We also entered all the objectives under our main goal-node. This helped to create a very basic structural hierarchy of our objectives. We further chose to group three of our objectives – Long-term financial stability, Immediate financial gains and Low debt, and cluster them under “Financial implications”. Having sub-objectives in a cluster (functional hierarchy) was essential to incorporate some discipline and specificity into our model.

The next step was to establish priorities. We evaluated each node (objective) in relation to its peers as well in relation to its parent node. Similarly, we constructed Pairwise comparisons of combination of sub-objectives under “financial implications”, and derived “local” priorities of the elements with respect to the parent.

Our EC model for Lie Garden’s objectives is shown in *Figure 1*. The model also shows local and global priorities, which were derived at the end. The process of deriving these priorities is explained below in this section. *Figure 2* shows our pairwise comparisons of various objectives.

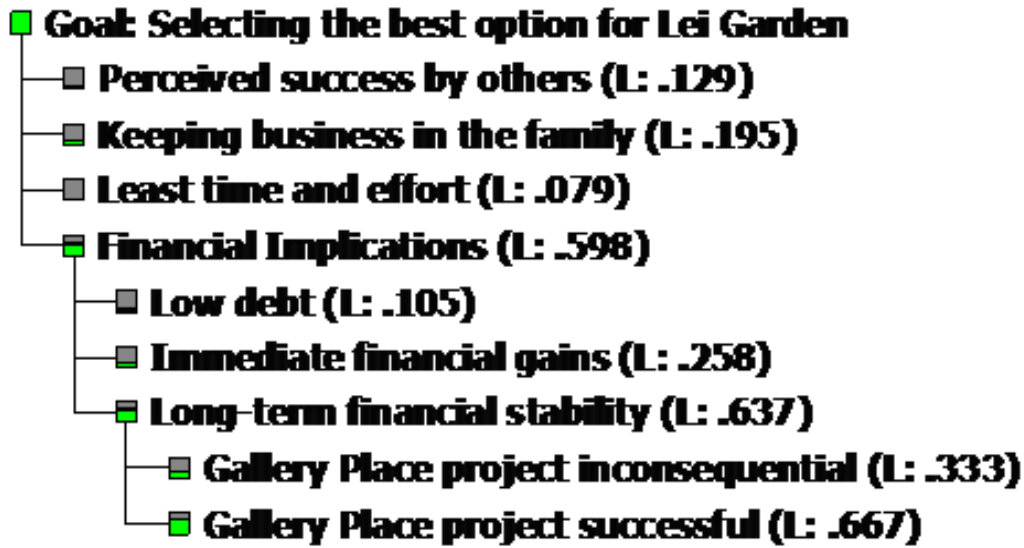


Figure 1: EC Model for Lei Garden

	Perceived s	Keeping bu	Least time	Financial In
Perceived success by others		(2.0)	2.0	(4.0)
Keeping business in the family			3.0	(5.0)
Least time and effort				(5.0)
Financial Implications	Incon: 0.06			

Figure 2: Pairwise Comparisons for Overall Objectives:



Figure 3: Importance of objectives

As indicated by the Figure 3, importance of the objectives was derived to be following:

- 1) Financial implications
- 2) Keeping business in the family
- 3) Perceived success by others
- 4) Least time and effort

	Low debt	Immediate financial gains	Long-term financial stability
Low debt		3.0	5.0
Immediate financial gains			3.0
Long-term financial stability	Incon: 0.04		

Figure 4: Pairwise Comparisons for Financial Sub-objectives:

Similarly, the derived importance of sub-objectives under “Financial implications” was as below:

- 1) Long term financial stability
- 2) Immediate financial gains
- 3) Low debt

All the information (for pairwise comparisons and such) was obtained from the client, therefore we believe that our model is full proof and the client will trust the final judgment given by Expert Choice. Our model did not suffer due to incomplete or inadequate information and we were able to keep inconsistency to a really low – irrelevant – level.

B. Building a Scenario in to the model

One of our objectives, Long-term financial stability, depends on the future success of the Gallery Place Chinatown project. Since the future outcome is difficult to predict (however, our decision does depend on this), we incorporated a scenario into our model.

“Scenarios can be modeled with EC allowing you to consider decision alternatives under a variety of circumstances”¹. We added “Gallery Place project successful” and “Gallery place success inconsequential” as 2 possible states or possible scenarios as can be seen in *Figure 1* above. We also included pairwise comparisons of the scenarios with the sub-objectives to indicate the overall prospects of both states. We believe that the probability of success of the Chinatown project is higher and is 66% verses 33% probability of failure. The local priorities (in *Figure 1*) indicate this as well.

C. Pairwise comparisons of objectives vis-à-vis alternatives

After doing pairwise comparison for all objectives and adding the scenario into the model, we proceeded to do pairwise comparisons of alternatives with respect to each objective. *Figure 5* shows an example of one such comparison for the “Perceived success by others” objective. Finally, pairwise comparisons of the alternatives with respect to each of the objectives were done (please refer to *Figure 6* below to see the

¹ Chapter 4, The Analytic Hierarchy Process and Expert Choice

derived priorities). This we believe is the most important step of the EC model, as it helps to understand the contribution of each objective to each of the final alternatives. Based on these pairwise comparisons, EC helps us to derive the ultimate importance of the alternatives and to figure out which alternative best serves all objectives (of course this depends on the derived importance of respective objectives as well).

Compare the relative preference with respect to: Perceived success by others						
	Status Quo	Renovate	Reinvent	Sell	Partnership	Wait and Sell
Status Quo		2.0	4.0	3.0	3.0	2.0
Renovate			3.0	4.0	2.0	3.0
Reinvent				6.0	2.0	5.0
Sell					5.0	2.0
Partnership						4.0
Wait and Sell	Incon: 0.02					

Figure 5: Pairwise comparison of all alternatives w.r.t. Perceived success by others

Ideal mode	Pairwise	Pairwise	Pairwise	Pairwise	Pairwise	Pairwise	Pairwise
Alternative	Perceived success by others (L: .129)	Keeping business in the family (L: .195)	Least time and effort (L: .079)	Financial Implications Lowdebt (L: .105)	Financial Implications Immediate financial gains (L: .258)	Financial Implications Long-term financial stability Gallery Place project inconsequential (L: .333)	Financial Implications Long-term financial stability Gallery Place project successful (L: .667)
✓ Status Quo	.263	.417	.112	.263	.168	.263	.262
✓ Renovate	.417	.655	.263	.168	.263	1.000	.671
✓ Reinvent	1.000	1.000	.168	.112	.112	.655	1.000
✓ Sell	.112	.112	1.000	.655	.655	.112	.108
✓ Partnership	.655	.263	.417	.417	.417	.417	.415
✓ Wait and Sell	.168	.168	.655	1.000	1.000	.168	.167

Figure 6: Pairwise comparison of objectives with alternatives

The lengths of yellow bars in each column show the degrees to which each objective compares to all alternatives. For example, financial implications (low debt, and Immediate financial gains) are served mainly by “Sell” and “Wait and Sell” alternatives, but not as much by “Renovate” or “Reinvent”. However, long-term financial stability objective is well served by “Renovate” or “Reinvent”.

VI. CONCLUSION

Based on the comparative judgments we entered, EC helped to conclude that Reinventing is the best option for Ms. Wang. This is understandable as Reinventing helps to serve her more important objectives such as long-term financial stability and keeping the business in the family.

The final result would not have been very clear without doing the Expert Choice model. Although “selling” seemed to be a very tempting option in the short-term, as shown by EC, it may not necessarily make Ms. Wang happy in the long-term as her other more important objectives would not have been attained through this alternative. *Figure 6* below shows where the alternatives stand, and *Figure 7 – Performance sensitivity graph*, shows the performance of alternatives for each objective.

As is evident, the “Reinvent” and “Renovate” alternatives come very close in the final rating of alternatives. We decided to take a closer look at the final two objectives to better understand what causes one to lead over another. We thought that this effort to further help Ms. Wang to rethink some things and second check her overall goals. In *Figure 8, Weighted Head to Head Graph: Reinvent vs. Renovate*, we show clearly which objectives are better served by which alternative. “Perceived success” and “Keeping the business in the family”, that are more important objectives are obtained by **reinventing** the restaurant.

The head-to-head comparison helped Ms. Wang to confirm her understanding. She along with her family was happy to see the results. We did not have to go back and remodel anything.

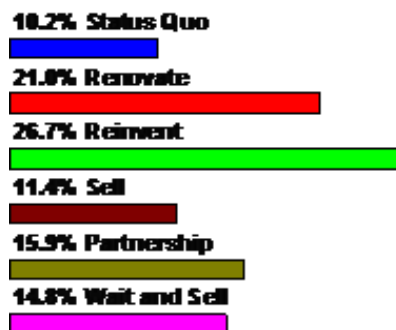


Figure 7: Final EC rating of alternatives

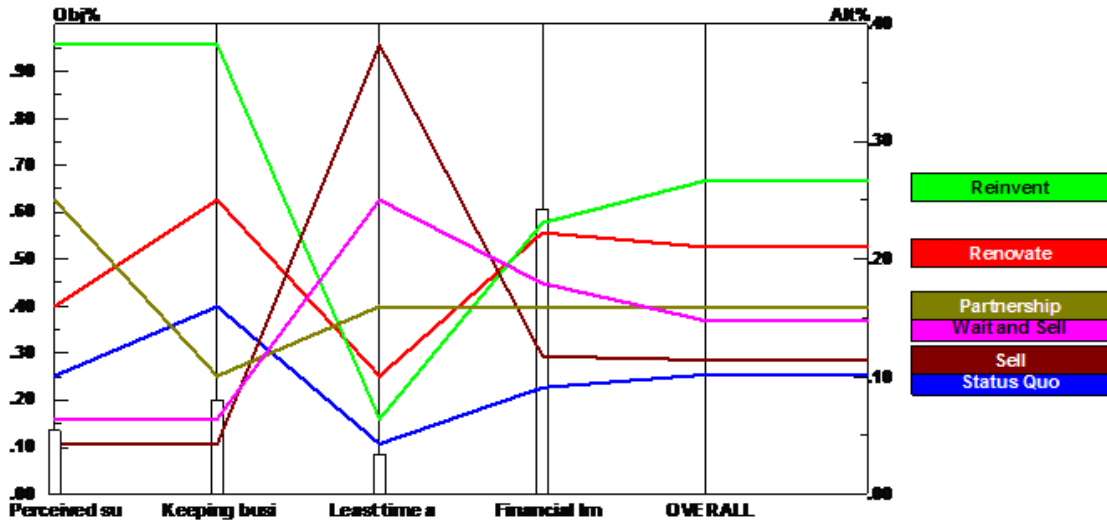


Figure 8: Performance Sensitivity Graph

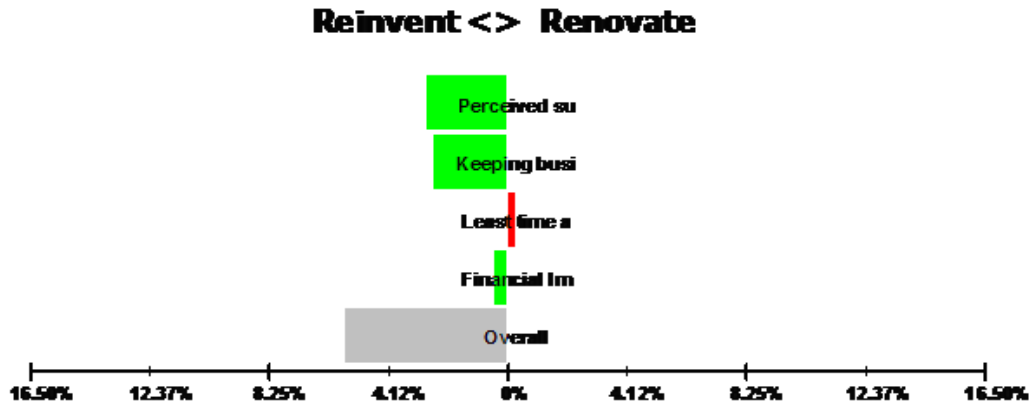


Figure 9: Weighted Head to Head Graph: Reinvent vs. Renovate

VII. CLIENT ACTION

Upon completion of the Lei Garden project, we presented our findings to Julie and her two children, Steve and Deborah. They were very pleased to hear that Expert Choice had confirmed their desire to reinvent their restaurant. They were also thankful that our interactions had required them to seriously think about what they were trying to accomplish rather than making such a large investment on gut instinct or a mere impulse. *Deborah had this to comment:*

"When I first saw the program, I was very surprised that the decision making process could be facilitated by computer software. I found the project to be very interesting and helpful as Lei Garden undergoes business and structural change. The presentation that Andrea and Shilpa gave me was very detailed and easy to understand. It gave me a better idea of which direction I should be heading in for the final decision. Reinvention was recommended, and I do believe that by doing so, my family will benefit in the long run.

Downtown Washington DC's retail and development sectors are expanding at an enormously fast rate, and there is a significant increase in foot traffic. Though there will be a risk in investing more capital, the pay off should be well worthwhile. I look forward to any more suggestions these two motivated entrepreneurs can give me and will definitely take their advice seriously into consideration. I am very impressed with this proposal and hope to use the software again for future decision making processes."

Since our last meeting, the Wang's have moved forward with their reinvention efforts. They have already secured a designer who is both excited and optimistic about the restaurant's potential. The target opening date for the new restaurant is December 2005.