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## Competitive Market Analysis

### Ciao Bella Grill

Release: July 2009

Industry: SIC 5812: Eating Places

Financial Peer Group: Corporations (\$500,000-\$999,999)

Sector: Retail

Market Peer Group: Industry-wide (all industry firms)

Market Area: Zip Codes 17011, 17102, 17043, 17101, 17055

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The competitive market analysis generally progresses from big picture background to a specific market area industry analysis and benchmarks Ciao Bella Grill.

## I. General Business and Consumer Environment

- Regional Trends
- Area Income
- Economic Background

Between May 2008 and May 2009, total PA employment declined by 3.4%, while unemployment rose by 3.1 points to 8.1%. During the same period, state employment in Leisure-Hospitality, the parent sector of Eating Places in the Bureau of Labor Statistics taxonomy, decreased by 3.4%. The sector represents 9.0% of total state employment, including the public sector. On a national scale, the Eating Places industry holds a \$567,469,879,061 market with a positive three year sales trend (the twelve months ending QII 2006-QII 2007-QII 2008) of 23.5%.

The specific market area includes sections of Cumberland County, PA, within the Harrisburg-Lebanon-Carlisle, PA metropolitan area and Dauphin County, PA, within the Harrisburg-Lebanon-Carlisle, PA metropolitan area.

As of July 2009, the area supported a business base of 5,499 locally operated firms and 820 business branch operations. Local business operations are distributed among economic sectors as shown in the following table:

<b>Economic Sector Concentrations</b>		
<b>Sector</b>	<b>Market Area</b>	<b>US</b>
Agriculture-Forestry-Fishing	1.9%	4.1%
Mining	0.1%	0.2%
Construction	5.5%	8.7%
Manufacturing	2.9%	4.5%
Transport-Communications-Utilities	2.8%	3.9%
Wholesale Trade	3.7%	4.9%
Retail	16.8%	16.4%
Fire-Insurance-Real Estate	9.9%	8.6%
Services	56.4%	48.6%

The market area includes 43,410 personal income reporting units with total gross income of \$2,528,894,000 (average income: \$58,256), 1.3% above the US average of \$57,524. (Each personal income reporting unit represents a single IRS tax return and is used to approximate a consumer decision-making unit.) The percentage of earning units within each income reporting bracket is noted in the table:

Personal Income Breakdown (IRS reporting units)	
Income Bracket	Market Area
Less than \$10,000	17.8%
\$10,000-\$25,000	19.3%
\$25,000-\$50,000	25.2%
\$50,000-\$75,000	15.4%
\$75,000-\$100,000	9.7%
\$100,000-\$200,000	9.7%
Over \$200,000	2.8%

The average income of the 4,231 personal income units reporting \$100,000-\$200,000 gross income is \$131,232; Average income of the 1,213 units reporting more than \$200,000 gross income is \$523,523.

## II. Competitive Market Concentrations and Vitality

- Market Penetration
- Industry Vitality

The Eating Places industry captures \$4,351 in sales per personal income earning unit within the market area, representing local demand above US national levels of \$4,219. Local industry sales are 7.5% of gross personal income, above the US national level of 7.3%. The industry location quotient of 0.76 indicates market area employment concentrations below the industry employment concentration nationally (where the US concentration equals 1.00).

The market area Eating Places industry transacts \$29,887 in sales per private sector business establishment, representing local demand below US national levels (\$37,419). Locally generated industry sales represent 3.6% of the total volume of sales generated in the market area by businesses of all types,

Over the twenty-four month period July 2007 to July 2009, 19.8% of US business establishments in the industry, and 18.8% in its small business segment, ceased independent operation. By contrast, the cessation rate in the market area was 16.7% industry-wide and 12% for small businesses. Higher than normal cessation rates may be an indicator of a saturated market, especially when coupled with low average sales trends and significantly declining market size. In this case, both of these factors apply.

On the new business vitality side of the equation, 4 independent industry startups and new branch operations were identified in the market area, creating a new operation rate of 1.8% in the most recent analysis year (July 2008 to July 2009), less than the national rate of 2.2%. Unusually low new operation rates can indicate market saturation or lack of perceived opportunity, while high rates suggest both opportunity and the recognition of it. Due to the limited number of new operations at any given time, this indicator is often less useful in small local market areas.

### III. Industry Market Size and Projections

- Market Volume
- Small Business Share
- Growth and Projections

In this market area, the Eating Places industry includes 267 business operations; 239 independent firms and 28 branch establishments. Among the independent firms, 120 fall within small business parameters defined as single site firms with fewer than 25 employees.

Industry firms based in the market area represent total annual **reported sales** of \$111,350,000. However, this figure includes branch operations owned by local firms which are situated outside the market area; and excludes local branch operations owned by firms headquartered elsewhere.

A more meaningful picture is created by the **locally generated industry sales** figure of \$188,856,601, which excludes operations of branches owned by local firms but situated outside the market area; and conversely, includes branch operations inside the market area, even if owned by firms based elsewhere. The locally

generated industry market volume figure is developed from locally transacted sales reports, employment and sales per employee data. The generated market volume of the industry's small business segment in the market area is \$26,000,000, or 13.8% of the total local market. Nationally, small businesses capture 10.6% of industry market share. For the market-specific focus of this competitive analysis, generated sales is applied as the most useful barometer of industry-wide market area revenue unless otherwise specified.

Industry sales in the market area grew by 116.9% between the years ending July 2007 and July 2009. The total sales volume of firms in the national industry grew by 23.5%.

Mature businesses in the market area (three years or more of operation) account for a 63.2% market share of the total. The mature small business segment accounts for a 12.6% share of the market total.

Average annual (locally generated) site sales are \$707,328, including branch operations controlled from outside the market area. Nationally, industry site sales are \$896,903 or 126.8% of local levels. Market area small business sales average \$216,667, or 4.3% below the national average for small businesses in the industry.

Employment in the Eating Places industry is projected to decline 9.8% by 2016, while industry productivity will increase by an estimated 18.2%. In current dollars, the national industry is projected to grow by 3.9% over the next three years and by 6.5% over five years. Market area growth will be differentially impacted by local conditions including income levels and business-to-business demand. The utility of short-term projections may be adversely affected by unforeseen economic turbulence and volatility.

#### IV. Ciao Bella Grill: Market Analysis and Business Valuation Benchmarks

- Annual Sales
- Sales per Employee
- Officer Compensation
- Discretionary Owner Earnings
- Profit
- Efficiency

Ciao Bella Grill annual sales of \$754,653 are 6.7% above the market area industry establishment average and 15.9% below the national industry establishment average for Eating Places. Benchmarked only against other industry establishments with at least three years of operation, Ciao Bella Grill annual sales are 13.8% above average. Ciao Bella Grill enjoys a current market share of 0.4%, down from 0.8% in July 2007. If market share had remained constant, Ciao Bella Grill sales would be \$752,230 higher. If sales trends had matched the national industry, Ciao Bella Grill sales would have increased by \$103,535.

Industry sales per employee are \$58,737 at the national level and \$49,491 in the market area. Local small business sales per employee are \$37,464, while small business sales per employee are \$32,338 at the national level. Ciao Bella Grill sales per employee are \$41,925, exceeding local industry establishment trends by 11.9%. Another efficiency measure, the Asset:Sales ratio, shows that the Ciao Bella Grill ratio rose 0.03 points to 0.21 over the three-year period, while the industry financial peer group ratio fell 0.03 points to 0.18.

Nationally, industry officer compensation for corporations (sales class: \$500,000-\$999,999) in the Eating Places industry is 3.6%, while Ciao Bella Grill officer compensation is 5.9%. discretionary owner earnings increase to 11.6% when net profit of 6.5% and non-cash expenses (Amortization-Depreciation) of 1.5% are added back into actual available dollars. By comparison, when Ciao Bella Grill discretionary owner earnings are calculated for this sales class (including net profit of 5.2% and non-cash expenses of 1.0%), total owner discretionary earnings of 12.1% out-perform the average of the financial peer group. Actual market area owner compensation is further affected by local and regional factors such as metro area wage costs below the national average by a factor of 4%; by state tax levels the

same as the national average; and by local rental rates below the national average by a factor of 15% in the metro area.

Profitability comparisons can also be applied to quantify the relative performance of Ciao Bella Grill. If company gross profit margins were at financial peer group levels in the most recent year, Ciao Bella Grill gross profit would have increased by \$4,739. If the peer group net profit percentage had been applied to the firm, Ciao Bella Grill profits would have risen by \$9,529.

<b>Valuation Benchmarks: Ciao Bella Grill to Industry</b>		
Ciao Bella Grill Share of Local Industry Market		Declined
	Opportunity metric	752,230
Ciao Bella Grill Sales to US Industry Growth		Declined
	Opportunity metric	103,535
Ciao Bella Grill Sales per Employee to Small Business SPE		Higher
Ciao Bella Grill Gross Profit to Financial Peer Group		Lower by
	Opportunity metric	4,739
Ciao Bella Grill Net Profit to Financial Peer Group		Lower by
	Opportunity metric	9,529
Ciao Bella Grill Officer Compensation to Financial Peer Group		Higher by
	Opportunity metric	17,357
Ciao Bella Grill Owner's Discretionary Earnings to Financial Peer Group		Higher by
	Opportunity metric	3,773
Ciao Bella Grill Asset: Sales Ratio to Financial Peer Group		Higher by
	Difference	0.03

## V. Competitive Summary

- Market Area to National Industry
- Ciao Bella Grill to Peers

The competitive analysis identifies industry strengths and weaknesses in this market area relative to the national performance of firms within the industry classification:

<b>Competitive Indicators: Local Industry Market to National Industry</b>	
Industry Sales Growth	Higher
Industry Sales as a Per Cent of Total Market Sales	Higher
Industry Cessation Rate	Lower
Small Business Cessation Rate	Lower
Industry New Operation Rate	Lower
Average Site Sales	Higher
Average Site Sales Growth	Higher
Average Small Business Sales	Lower
Average Small Business Sales Growth	Higher
Small Business Market Share	Higher
Small Business Market Share Growth	Lower
Average Industry Sales per Employee	Lower
Average Small Business Sales per Employee	Higher
Sales per Personal Income Reporting Unit	Higher
Sales per Gross Dollar of Personal Income	Higher
Industry Sites per Household	Higher
Industry Employment Concentration	Lower

Ciao Bella Grill performance reflects these strengths and weaknesses relative to the industry in this market area:

<b>Competitive Indicators: Ciao Bella Grill to Market Area Industry</b>	
Average Annual Sales (market area industry establishment)	Higher
Average Annual Sales Growth (market area industry establishment)	Higher
Sales per Employee (market area)	Higher
Officer Compensation (national)	Higher
Discretionary Owner Earnings (national)	Higher

<b>VI. Competitive Analysis Table</b>	
Market Area Industry Establishments	267
Market Area Independent Industry Firms	239
Market Area Industry Small Businesses	120
Market Area Industry Branch Establishments	28
July 2007 Market Area: Industry Volume (\$)	87,060,400
July 2009 Market Area: Industry Volume (\$)	188,856,601
US Industry Growth Projection: 3-year	18.2%
US Industry Growth Projection: 5-year	9.8%
July 2007 Market Area: Small Business Volume (\$)	26,250,000
July 2009 Market Area: Small Business Volume (\$)	26,000,000
July 2007 US Industry: Average Annual Industry Firm Sales (\$)	1,121,256
July 2007 US Industry: Average Annual Industry Site Sales (\$)	924,209
July 2009 US Industry: Average Annual Industry Firm Sales (\$)	1,045,499
July 2009 US Industry: Average Annual Industry Site Sales (\$)	896,903
July 2007 Market Area: Average Annual Industry Site Sales (\$)	403,057
July 2009 Market Area: Average Annual Industry Site Sales (\$)	707,328
July 2009 Market Area: Annual Industry Mature Site Sales (\$)	663,251
July 2007 US Industry: Average Annual Industry Small Business Sales (\$)	226,364
July 2009 US Industry: Average Annual Industry Small Business Sales (\$)	231,387
July 2007 Market Area: Average Annual Industry Small Business Sales (\$)	210,000
July 2009 Market Area: Average Annual Industry Small Business Sales (\$)	216,667
July 2009 Market Area: Annual Industry Mature Small Business Sales (\$)	216,728
Prior Ciao Bella Grill Annual Sales (\$)	694,653
Current Ciao Bella Grill Annual Sales (\$)	754,653
July 2009 US: Industry Sales per Employee (\$)	58,737
July 2009 US: Industry: Small Business Sales per Employee (\$)	32,338
July 2009 Market Area: Industry Sales per Employee (\$)	49,491
July 2009 Market Area: Industry Small Business Sales per Employee (\$)	37,464
Ciao Bella Grill Sales per Employee (\$)	41,925
US Industry: Sales per Personal Income Reporting Unit (\$)	4,219
Market Area Industry: Sales per Personal Income Reporting Unit (\$)	4,351
US Industry: Sales per US Business Establishment (\$)	37,419
Market Area Industry: Sales per Area Business Establishment (\$)	29,887
US Industry: Sales as a % of Gross Personal Income	7.3%
Market Area Industry: Sales as a % of Gross Personal Income	7.5%
Sales Concentration/ Quotient (US=1.00)	2.19
Employment Concentration/ Quotient (US=1.00)	0.76
Industry Officer Compensation: corporations (sales class: \$500,000-\$999,999)	3.6%
Ciao Bella Grill Officer Compensation	5.9%
Industry Net Profit: corporations (sales class: \$500,000-\$999,999)	6.5%
Ciao Bella Grill Net Profit	5.2%
Industry Discretionary Owner Earnings: corporations (sales class: \$500,000-\$999,999)	11.6%
Ciao Bella Grill Discretionary Owner Earnings	12.1%
US Industry: Cessation Rate	19.8%
Market Area Industry: Cessation Rate	16.7%
US Industry: Small Business Cessation Rate	18.8%
Market Area Industry: Small Business Cessation Rate	12%
US Industry: New Business Vitality Rate	2.2%
Market Area Industry: New Business Vitality Rate	1.8%

## Citations

Income content: Internal Revenue Service

Employment/Unemployment: Bureau of Labor Statistics

Employment/Unemployment: Bureau of Labor Statistics; US Census Bureau

Employment-Productivity Projections: Bureau of Labor Statistics

Industry Growth Projections: BizMiner projections, based on BLS

Industry Trend content: BizMiner projections based on data from BLS; Bureau of Economic Analysis; US Economic Census; US Census Bureau; various business credit reporting services

## Glossary and Methodology

For ease of use, discussion of terms and methodology is partitioned by the successive segments of the Competitive Analysis.

### I. General Business and Consumer Demand Environment

**Time Series:** Except where otherwise indicated, the report analyzes trends over three running years ending (real time) [Jan-06], [Jan-07] and [Jan-08]. Content is adjusted to account for time lags in raw data. BLS data time series is cited separately in the report.

**Establishments:** Firms plus Branch operations.

**Firms:** Independent companies.

**Small Businesses:** In order to focus the analysis on the small businesses of greatest interest to our users, the analysis defines small businesses as single site firms with fewer than 25 employees. All small businesses are also "firms".

**Branches:** Subsidiary facilities of firms; non-headquarters operations.

**Income:** Income and data is derived from 2006 IRs reporting measures. Income data derived from individual returns is analyzed is assumed as one return per household.

### II. Competitive Market Concentration and Vitality

The **Employment Concentration** compares the percentage of local industry employees in the market area economy to the corresponding data at the national level.

The **Sales Concentration** is the industry percentage of total economy-wide sales, local and national. In each case, the trend indicates the increasing or decreasing importance of the industry in the economic area under review.

**Cessation Rates:** Cessation rates ("failure rates" in other BizMiner reports) track the actual experience of industry establishments and small businesses doing business at the start of the time series, and still in operation at the end of the analysis period. "Mature firms" are business operations within a given category which have maintained operations throughout the time series. Mature Firm measures isolate and report on these ongoing firms. As a result, Mature Firm benchmarks display experience-rated measures, rather than snapshots of the industry at a particular point in time. Firms which have experienced a transfer in ownership but continue as independent firms are considered "survivors". Firms which relocate but maintain independent operations are considered survivors if they do not move out of the jurisdiction being analyzed. Firms which are purchased or merge and become subsidiary locations, or whose location is terminated, are grouped with the "failures". Any business entity which does not evidence ongoing operations (for example, by registering with government agencies or credit reporting services) is considered to have ceased viable operations and is classified with the "failures".

The Cessation rate analysis is developed for discrete business segments by segregating the original pool of tracked firms by industry classification, location, and population segment (all establishments, small

businesses, etc.) That beginning universe is segregated and tracked to develop the failure rate for that group. As a result, failure rates occasionally reflect performance above 100% or below 0% due to business migration among industries (changes in primary business line) or (in the case of location-specific failure rates) due to business relocations during the analysis period.

**New Business Vitality Rate:** This metric includes percentage measurements for both entrepreneurial activity and new branch development.

The Startup Rate measures the percentage of all industry firms which indicated one year or less of operation during the one-year period reflected by the time series and which maintained operation through its end point. These startup firms are compared to the number of firms in the industry for which ages can be identified. The **New Branch Rate** measures the number of new branches developed in the final year of the time series and which maintained operation through the end of the time series. These are compared to the total number of industry branches. The two measures are combined into a unified **New Business Vitality Rate** displayed at local and national industry levels.

### III. Industry Market Size and Market Share

**Reported Annual Market Volume** includes industry sales figures from multi-site firms classified in the selected industry, generally including branch revenues. The Market Volume figures include sales of US firms and US-reporting subsidiaries of firms headquartered outside the US. The volume figures are for the industry (firms identifying this as their primary classification) not the product or service. As an example, a report for retail furniture stores analyzes sales of stores whose predominant revenue stream is furniture sales; that data would not include furniture sold at a general department store, for example. Consequently, more detailed industry segments may underreport volume due to the choice of companies to identify a higher level parent classification as their primary line of business.

**Generated Market Volume** projects sales volume based on locally transacted sales reports, local industry employment and sales per employee data developed by BizMiner. This number includes headquarters operations inside the area, as well as branches of any industry firms located within the selected area. It excludes branch operations located outside the area. The Generated Market Volume figure is an indicator of the actual sales of an industry transacted within the selected area.

**Industry Projections** are developed for 1-3-5 year intervals, and are derived from various data elements from the US Bureau of Labor Statistics and US Economic Census. The utility of short-term projections may be adversely affected by unforeseen economic turbulence and volatility.

### IV. Competitive Analysis and Benchmarks

**Average Annual Sales:** The Average Annual Sales indicate "snapshot" average dollar sales for industry establishments, firms and small businesses during the time series. **Mature Firm Sales** data tracks the same set of firms in each category from the beginning of the time series through the end. In this case, only those firms which maintained operations through the three years are analyzed; new entries and those which ceased operations in the interim are not included. These mature firm sales reflect an experience-rated analysis which can be used to help inform future projections and benchmark longer term firms in a valuation of other analysis.

While there is significant overlap of firms in each category between years, results can be affected by business failures, mergers and the migration of companies between the three categories. Migration between business classifications has a much lesser impact in most cases.

**Sales per Employee:** A common indicator of productivity, sales per employee data is presented for the Industry (all establishments), and the Small Business sector within it.

**Sales Growth:** Sales Growth measures compare the change in total sales over the time series displayed in the report.

### About the Data

Raw data analyzed for BizMiner reports is sourced from an array of the nation's private business databases, reporting agencies and government statistical sources, including the IRS. Income and data is derived from 2006 IRs reporting measures. Industry growth projections are derived from various data elements from the US Bureau of Labor Statistics and US Economic Census. None of these raw data

sources creates the final measures reflected in BizMiner industry profiles. In total, BizMiner accesses over half a billion sourced data points from eighteen million business operations for each of its twice-annual updates. Census and other government data are used incidentally to inform and test projections for non-reporting firms.

At the same time, some firms are missed and specific information on others is lacking from the database. While 100% firm coverage is desirable for analysis purposes, the greatest value of the content rests in discerning patterns of activity, which are reflected in the large samples used to develop our reports. As is the case with any databases this large, some errors are inevitable. No representation is made as to the accuracy of the databases utilized or the results of subsequent analyses.

Sales volume figures are for firms identifying this as their primary classification. For example, a report for retail furniture stores analyzes sales of stores whose predominant revenue stream is furniture sales; that data would not include furniture sold at a general department store. Firms in more detailed industry segments may opt to identify a higher level or "parent" classification as their primary line of business, effectively reducing sales applied to the detailed segment.

It is sometimes difficult to ascertain precise sales data for the smallest firms in the databases. When precise numbers are not available, reports that offer a sales range may be utilized. When there is a very small number of firms in a category (most often startups, which are by nature often micro-firms) the sales is recorded at 150,000 (reflecting a 100,000-175,000 range).

Survival and sales analysis of independent business operations are based on information supplied largely by business owners and representatives to private reporting services. Inaccurate information supplied by business owners or representatives may affect the analysis. Cessation and Survival rates assume that the discontinuation of a facility's presence among credit reporting databases utilized reflects the discontinuation of operations of that facility. Where insufficient data is available to create specific line items in specific industry reports, projections developed through proprietary algorithms, including projections from broader industry data, may be utilized. The Time Series: Our Profiles are adjusted to account for time lags in raw data. We adjust the time series to compensate, and the dates shown in the reports generally reflect the actual time series shown in each Profile.

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