



Modernizing the Family-Owned Restaurant: A Business Model Innovation Approach

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Abstract

Title: Modernizing the Family-Owned Restaurant: A Business Model Innovation Approach

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This thesis examines how a traditional family-owned restaurant can adapt within an increasingly competitive dining market without losing its identity. The study centers on *El Huarachito*, a Mexican breakfast establishment in Los Angeles, United States and evaluates how modernization through targeted strategic adaptations can enhance competitiveness while preserving authenticity. Primary data were collected through two surveys: one conducted in-house with existing patrons and another targeting the broader Los Angeles dining market. These surveys, complemented by clustering analysis and a competitive landscape review, identified customer segments and strategic opportunities.

Drawing on four theoretical frameworks, the study develops a strategy that applies the Resource-Based View to anchor differentiation, Porter's Competitive Advantage Theory to define positioning, Business Model Innovation to structure six actionable initiatives, and Stewardship Theory to frame long-term succession. The proposed initiatives include implementing online ordering with delivery options, launching a social media campaign, extending operating hours, introducing small-scale catering, developing a Mexican coffee program, and adding new chicken-based offering to manage short-term cost pressures.

Together, these measures connect cultural strengths to operational adaptations, providing a coherent blueprint that addresses short-term cost pressures, expands market reach, and enhances brand visibility, while ensuring intergenerational continuity.

Keywords: Traditional restaurants, family-owned business, resource-based view, business model innovation, Mexican cuisine, hybrid restaurant model, Los Angeles restaurant market, cultural authenticity

Resumo

Título: Modernizar o Restaurante de Gestão Familiar: Uma Abordagem de Inovação do Modelo de Negócio

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Esta dissertação analisa como um restaurante tradicional de gestão familiar pode adaptar-se a um mercado de restauração cada vez mais competitivo sem perder a identidade. O estudo centra-se no El Huarachito, um restaurante de pequeno-almoço mexicano em Los Angeles, Estados Unidos, e avalia de que forma a modernização através de adaptações estratégicas pode reforçar a competitividade preservando a autenticidade. Os dados foram recolhidos através de dois inquéritos: um realizado presencialmente junto dos clientes atuais e outro dirigido ao mercado alargado de Los Angeles. Estes inquéritos, complementados por análise de clusters e revisão do panorama competitivo, permitiram identificar segmentos de clientes e oportunidades estratégicas.

Com base em quatro quadros teóricos, o estudo desenvolve uma estratégia que aplica a Visão Baseada em Recursos (RBV) para sustentar a diferenciação, a Teoria da Vantagem Competitiva de Porter para definir o posicionamento, a Inovação do Modelo de Negócio para estruturar seis iniciativas acionáveis e a Teoria da Stewardship para enquadrar a sucessão a longo prazo. As iniciativas propostas incluem implementar um sistema de encomendas online com entrega, lançar uma campanha digital, prolongar o horário de funcionamento, introduzir catering de pequena escala, desenvolver um programa de café mexicano e acrescentar novas opções à base de frango para gerir pressões de custos imediatas.

Em conjunto, estas medidas articulam os pontos fortes culturais com adaptações operacionais, oferecendo um plano coerente que responde às pressões financeiras, amplia o alcance de mercado e reforça a visibilidade da marca, garantindo simultaneamente a continuidade intergeracional.

Palavras-chave: restaurantes tradicionais, empresa familiar, visão baseada em recursos, inovação do modelo de negócio, cozinha mexicana, modelo híbrido de restaurante, mercado de restauração de Los Angeles, autenticidade cultural

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1. Introduction

1.1. Business Context

Across the United States, family-owned restaurants are vital to their communities, preserving culinary heritage and cultural traditions. Yet, many of these businesses are under immense pressure. Rising operating costs, labor shortages, and shifting market conditions have placed enormous strain on the traditional full-service restaurant model. As new formats in the food industry emerge to address these challenges, long-established operators may need to rethink their strategic approach if they are to survive. For older, family-owned establishments, this need for reinvention is further complicated by generational succession, as heirs not only inherit the restaurant's legacy but also the responsibility for addressing its long-standing structural vulnerabilities.

This thesis explores the challenges and strategic adaptations facing legacy family-owned restaurants in the United States, using the researcher's family business, El Huarachito, as the case study. The researcher's position as a second-generation member provides unique insider access and a sense of practical urgency to this analysis. El Huarachito is an immigrant-owned, family-run Mexican restaurant with over 25 years of history in Los Angeles, California. The business embodies a common success story in the United States, having originated as a humble street food stand before expanding into a full-service brick-and-mortar establishment. Though its many accomplishments were in large part achieved through authentic culinary tradition and strong community ties, they were made without a formalized business strategy, a trait common among many small, family-run enterprises. This study proposes a strategic framework for adaptation, designed to help the restaurant preserve and strengthen its cultural identity while addressing these operational and market pressures.

1.2. Problem Statement

The restaurant industry is highly competitive and rapidly evolving, with changing consumer preferences, rising cost pressures, and new dining formats threatening the sustainability of traditional full-service models. These challenges are now especially pronounced, with many restaurants facing financial strain and closure. El Huarachito, with its loyal customer base and over two decades in business, is not immune to these threats, making strategic adaptation essential for both short-term stability and long-term success.

1.3. Research Questions

To evaluate the viability of this modernization strategy, the thesis explores the business problem across three dimensions: market pressures, demand shifts, and financial sustainability, to demonstrate how small-scale, legacy restaurants can adapt without sacrificing their identity.

To guide this analysis, the study is guided by the following research questions:

RQ1. How should El Huarachito's strategic position be reassessed to fit today's competitive landscape?

Assesses strategic fit of the current competitive environment for traditional Mexican restaurants in Los Angeles.

RQ2. What are the key demographic and behavioral profiles of current customers and prospective diners?

Defines segments, behaviors, and behavior drivers for both current and new customers.

RQ3. What strategic adaptations most improve long-term financial viability and support generational succession?

Evaluates initiatives for long-term profitability, resilience and continuity.

1.4. Scope of Thesis

This thesis evaluates a modernization strategy for El Huarachito by applying established academic frameworks and original survey research. The study is theoretically grounded in four core frameworks: Resource-Based View (RBV), which assesses the restaurant's unique capabilities; Porter's Competitive Advantage Theory (PCAT), which evaluates its market

positioning; Business Model Innovation (BMI), which provides a foundation for redesigning its value proposition; and Stewardship Theory, which guides the long-term vision by aligning family motivations with business continuity. Empirically, the research relies on primary data collected through a dual-survey methodology, capturing insights from both existing customers and the broader Los Angeles market to inform its recommendations.

2. Literature Review

2.1. Industry Overview and External Influences

The restaurant industry represents one of the most significant and dynamic segments of the United States economy. In 2024, the U.S. foodservice sector generated \$1.54 trillion in sales, with full-service and limited-service restaurants each contributing roughly \$547 billion. Food away from home accounted for 58.5% of total food expenditures, the highest share on record, underscoring the sector's dominant and growing role in national food consumption (USDA, 2025a). Beyond its scale, the industry functions as a powerful cultural force, where culinary traditions help shape and sustain local heritage.

As one of the largest service sectors in the United States, the restaurant industry is especially sensitive to macroeconomic pressures. Research shows that restaurant sales are closely tied to key economic indicators such as disposable income, unemployment, and interest rates, demonstrating the industry's sensitivity to fluctuations in the wider economy (Lee, 2014). Taken together, these dynamics suggest that restaurants are continually exposed to pressures that shape their ability to operate. These challenges are further magnified by the industry's intensely competitive landscape, defined by market saturation, emerging formats and a larger reliance on digital platforms. For family-run restaurant businesses, there is also an added layer of complexity with succession planning and generational disconnect, issues that intersect with the broader operational and labor challenges addressed in the next section.

2.2. Operational and Internal Challenges

Aside from broader external forces, internal pressures play a big role in determining outcomes for small scale operators. Labor and food costs, which together make up prime costs, have been

identified as the two largest negative drivers of profitability across all restaurant models, impacting full-service restaurants the most, with these costs averaging approximately 72% of revenue (Mun & Jang, 2018). While reducing labor and food can improve margins, such measures carry the risk of compromising service quality or product standards. Enz (2004a) found human resource management to be the most troubling issue for restaurant owners and managers, with the ability to find and retain skilled employees a major issue. Recent data from the National Restaurant Association's 2025 *State of the Restaurant Industry* report confirm that these issues remain pressing, with labor costs and the recruitment and retention of employees identified as the top anticipated challenges for full-service operators, with the sharpest shortages in back-of-house roles, where 78% struggle to hire chefs or cooks. As a result, labor management remains a critical consideration in strategic planning, influencing both short-term performance and long-term viability.

2.3. Consumer Behavior – Choice and Satisfaction

Beyond industry-related pressures, restaurants must also navigate a customer base whose habits and expectations have shifted through the course of the business' lifespan. Changes in lifestyle, generational influences, and the rise of digital connectivity have transformed the relationship between guests and operators. These shifts are reshaping the ways food businesses operate and the ways consumers engage with them, creating additional pressure on traditional models to adapt in how they attract, serve, and retain customers. In this context, understanding these demand-side dynamics becomes essential for evaluating which formats and strategies offer the most resilience against evolving market forces and shifting consumer habits.

Within this shifting landscape, food quality has long stood out as the central driver of restaurant choice and return intentions, with atmosphere typically ranking second in importance (Sulek & Hensley, 2004). In terms of overall satisfaction, food quality also remains the strongest determinant, with service quality, atmosphere, and value playing important roles (Zanetta et al., 2024), complemented by the influence of prior positive experience, cleanliness, and hospitable services (Duarte Alonso et al., 2013).

Drawing on recent findings from the National Restaurant's Association's 2025 *State of the Restaurant Industry* report, four broad behavioral themes are reshaping consumer demands and

expectations, guiding how restaurants approach format, service, and engagement. These include a growing consumer emphasis on convenience and speed, a preference for intentional ambiance and streamlined service layouts, a heightened demand for cultural authenticity and the increasing use of digital tools in discovering, ordering from, and interacting with restaurants.

2.4. Restaurant Formats and Models

Within the restaurant and food industry, operating models vary widely in how they create and deliver value, ranging from long-established full-service formats to emerging concepts optimized for speed and convenience. The rise of these newer models, driven largely by shifting consumer expectations, has often compelled traditional formats to adapt in response. Beyond structural differences, consumer motivations for choosing among these formats also differ. Customers seeking new restaurants differ in their motivators per the business format, with full-service appealing to novelty and experiential enjoyment, quick-service emphasizing speed and price, and fast casual balancing efficiency with quality (Lee et al., 2020). More recently, digitally driven formats such as ghost and virtual kitchens have also emerged, reflecting how innovation continues to disrupt traditional boundaries.

2.4.1. Traditional Full-Service Dining

Traditional full-service dining, arguably the most historically enduring format, is commonly defined by its seated table service, personalized hospitality, and extensive menu offerings. This dining experience, as Kimes (2008) describes, involves guests arriving and being seated, orders being taken and brought directly by a server, and concludes with the payment processing after the meal. Often, these restaurants take shape organically, developing their operational structures through routine and cultural tradition rather than through formalized strategic planning. In a national survey of restaurant owners and managers, Enz (2004b) provides detailed insight into the operational realities and recurring challenges characteristic of this format. Her findings show that this format is among the most labor-intensive in the industry, with high labor costs, persistent turnover, and difficulty finding skilled staff often at the core of its operational challenges. The study also identified other common concerns, including large and complex menus, rising operating costs, and a lack of formalized systems in areas such as human resources, marketing, and administration.

2.4.2. Quick-Service Restaurants

In contrast to formats built around extended service and broad menu offerings, a range of newer models has been developed to meet consumer demand for efficiency and convenience. Among these formats, quick service restaurants (QSR) meet those demands with an emphasis on speed and affordability. QSRs are typically built around a streamlined preparation process to deliver quick service, along with convenient locations, extended operating hours, and low prices (Chua et al., 2020; Mendocilla et al., 2020). In the context of Mexican cuisine in the United States, the QSR model is evident in many local and regional Mexican-American style chains, often featuring drive-through service and offering inexpensive staples such as burritos and tacos. The model is also widely represented by food trucks and taco stands, which are especially common in major cities such as Los Angeles.

2.4.3. Fast Casual

Fast casual dining has emerged as a distinct restaurant format generally positioned between quick-service and full-service restaurants. While it borrows elements from the quick-service model, fast casual dining sets itself apart with higher-quality food, upgraded ambiance, and modest service improvements, offering an experience that customers are willing to pay more for than at a typical fast food establishment (Schoffman et al., 2016).

It differentiates itself from traditional casual dining in both its customer-facing and operational structures. Fast casual dining differ from the full-service model by shifting to counter ordering and pre-payment, eliminating the need for waitstaff and speeding up service. While the overall menu is narrower, offerings are designed for customization, giving customers flexibility at a lower price point. It also relies on smaller footprints and leaner staffing, with labor costs averaging about 22% of sales compared to roughly 28% in full-service formats (Dixon et al., 2018).

Additionally, customization is a defining feature of the model, helping to meet modern demands for personalization. However, this flexibility can lead to choice overload, sometimes reducing satisfaction with the overall experience (Park & Kang, 2022).

2.4.4. Ghost Kitchens

The rise of digitally optimized formats, such as ghost kitchens, also known as virtual kitchens, has further intensified competitive pressure. A ghost kitchen is a food operation that has been designed for only food-delivery and does not have space for customer to dine (Cai et al., 2022).

These models are designed for speed, convenience, and scalability, often operating without dining rooms, front-of-house staff, or long-term leases. By relying on online platforms and third-party delivery infrastructure, they minimize overhead and adapt quickly to shifting consumer demand. In contrast, traditional restaurants remain anchored to physical infrastructure and rigid compliance systems. This structural gap places small, family-run businesses at a disadvantage in a market increasingly shaped by app-driven behavior and delivery-first expectations, even as some emerging hybrid formats demonstrate ways to combine limited physical presence with digital efficiency.

Regardless of format, restaurant operators face sustained pressures that require ongoing refinement of how these models are executed. The following section examines strategic adaptations that enable restaurants to navigate these pressures and maintain competitiveness.

2.5. Strategic Adaptations and Operational Innovation in Independently Owned Restaurants

To guide the analysis, strategic adaptations in independently owned restaurants are grouped into four domains: menu and product strategy, operational efficiency, channel and revenue diversification, and technological enablement. These categories provide a practical framework to assess how El Huarachito can strengthen competitiveness, increase revenue, and align with the evolving consumer demands.

2.5.1. Menu and Product Strategy

Menu optimization is one of the most powerful ways restaurants influence how diners perceive and choose. Their effects on diners work on two levels: the overall design that frames the dining experience and the subtle cues that influence individual choice. Studies show that broad menu features, such as size, layout, and visual presentation, have a greater impact on behavior than item-specific modifications, making design a key foundation. Within the broader design

function, specific menu engineering tactics can be layered in. Placing signature dishes at the edge of categories consistently increases their selections (Dayan & Bar-Hillel, 2011). A sense of scarcity, specifically when reinforced by a server's recommendations, can also heighten perceived value and urgency (Nazlan et al., 2018). Menu simplification may yield benefits, but its impact is strongest when restaurant offers dishes that feel distinctive and difficult to replicate at home (Peters, 2020). Taken together, these strategies show how design and psychology intersect, with the overall menu design setting the stage and the subtle cues nudging the final decision.

2.5.2. Operational Efficiency

Operational efficiency is a critical prerequisite for any modernization effort in legacy restaurants, as it determines whether strategic adaptations can be implemented in a sustainable way. Beyond menu design, small operators must ensure that the underlying systems and processes of service delivery are designed to handle demand efficiently. This involves harmonizing operational capacity with customer flow while maintaining consistency in delivery. As Thompson (2010) notes, revenue efficiency depends on the alignment of fixed-capacity operations with customer demand to maximize returns, underscoring the importance of operational design as a pillar of financial sustainability. As daily routines typically evolve informally for family-owned businesses, strengthening operational fundamentals can deliver immediate improvements in reliability and performance while laying the groundwork for long-term strategic renewal.

2.5.3. Channel and Revenue Diversification

Another domain of adaptation involves diversifying service and revenue channels. Small food firms increasingly move beyond the traditional dine-in model by integrating takeout, delivery, catering, or even packaged goods. Collison (2020) cautions that only 30–50% of online delivery sales represent incremental revenue, with much of it substituting dine-in sales, suggesting that offerings diversification should not be pursued indiscriminately, but rather selectively, focusing on channels that complement its existing strengths and add genuine, sustainable value.

2.5.4. Technological Enablement

The digital transformation of the restaurant industry has become a defining force in the way it expands customer reach, streamlines processes, and strengthens alignment with modern dining preferences. Digitalization serves as a foundation for creating new systems of interaction between consumers and stakeholders, allowing for innovation, adaptability, and synergy across the business (Shtal et al., 2021). This transformation is developed through automation in both back-of-the-house and front-of-the-house, platform integration systems such as point-of-sale systems, and new customer touchpoints that deepen engagement and leverage social media to personalize experiences (Alt, 2021). For small independent restaurants, these systems set the structural flexibility to adapt under pressure and remain competitive in these evolving markets.

Building on these foundational systems, digital marketing has emerged as a critical means of reaching new diners. Tools such as social media, online branding, and post-service responsiveness significantly affect competitiveness, suggesting that small firms must go beyond simply maintaining a website and instead actively engage with consumers (Singh et al., 2022). Moreover, businesses with embedded operational marketing systems proved more resilient during disruption, reinforcing marketing's role in adaptation (Sardar et al., 2022). This dynamic is especially relevant for small, independent restaurants, which often lack formalized marketing systems.

In the case of culturally rooted restaurants, like El Huarachito, even modest digital initiatives create visibility that highlights heritage narratives and distinctive culinary traditions, allowing them to differentiate in competitive markets (Talukder et al., 2024). Digital tools not only offer efficiency improvements but also create the visibility that amplifies its cultural heritage.

2.6. Theoretical Frameworks in Restaurant Context

To provide a structured academic foundation for the proposed modernization strategy, this section draws on four key theoretical frameworks: Business Model Innovation (BMI), the Resource-Based View (RBV), Porter's Competitive Advantage Theory, and Stewardship Theory. Each offers a distinct way to understand how a traditional family-owned restaurant can evolve without losing its cultural identity or long-term viability. Together, these frameworks explain how internal strengths, strategic positioning, and structural adaptation can be leveraged to

respond to modern challenges like rising costs, shifting consumer expectations, and generational succession.

2.6.1. Business Model Innovation (BMI)

Business model innovation refers to the reconfiguration of how a business creates, delivers, and captures value, a process that becomes especially important in the face of market or technological shifts. As Teece (2010) explains, business models outline how a firm organizes its operations, connects with customers, and structures its revenue generation, providing a foundation for sustained competitive advantage.

Drawing on their study of high-end dining, Bogers and Jensen (2017) highlight how business model innovation typically develops incrementally through small-scale refinements, rather than through drastic overhauls. This gradual approach is especially relevant for traditional restaurants seeking to evolve while preserving their core identity. Yun et al. (2023) revealed in a multi-country study that successful restaurant innovation frequently stems from collaborative experimentation among managers and staff, paired with systemic feedback from customers. This reinforces the importance of maintaining strong communication channels between ownership and employees, as well as between the business and its customer base.

Sorescu (2017) emphasizes that data is not merely a tool for performance tracking, but a foundational enabler of business model innovation, allowing businesses, such as restaurants, to adapt their value-creation strategies based on real-time data from customer engagement and operations. Restaurants that remain anchored in legacy practices and resist the integration of modern systems are increasingly constrained in their ability to compete. For these operators, this drives the need to consider data as a strategic resource. Tools like point-of-sale systems, scheduling trackers, and inventory management software can transform routine transactions into insights that can inform strategy in areas such as menu design, staffing, and resource allocation. This utilization of data represents a critical adaptation, shifting operation strategy from intuition-driven to evidence-based. Within the thesis, business model innovation is used to provide the framework for channeling such adaptations into a coherent modernization strategy.

2.6.2. Resource-Based View (RBV)

The Resource-Based View (RBV) asserts that firms can achieve sustainable competitive advantage by leveraging internal resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991; Habbershon & Williams, 1999). As a foundational framework in strategic management, it emphasizes looking inward, focusing on a firm's unique strengths and capabilities rather than relying solely on external market conditions. Instead of competing on price or market position, RBV suggests that lasting advantage comes from enhancing distinctive, high-value resources that competitors cannot readily acquire or replicate. This perspective is especially relevant in industries with intense competition, such as hospitality and food service, where menus, pricing, and service can be easily imitated. In such settings, competitive advantage depends less on what is offered and more on how it is uniquely created and delivered. For legacy restaurants, this suggests the strategic importance of intangible assets such as cultural authenticity, family-based knowledge, and long-standing community loyalty, resources that are difficult for competitors to replicate and can be served as powerful sources of advantage.

2.6.3. Porter's Competitive Advantage Theory (PCAT)

In reimagining a more competitive and resilient model for El Huarachito, it is important to establish a clear strategic foundation for how the business will position itself in the current dining landscape. Porter's framework identifies three generic strategies for achieving competitive advantage: cost leadership, differentiation, and focus (Porter, 1985). The proposed hybrid model engages all three.

It pursues cost leadership by minimizing overhead through value-based strategies, such as affordable breakfast combos, cost-effective delivery offerings, and competitively priced small-scale catering options. It achieves differentiation by establishing a distinct identity within a competitive environment that includes both traditional Mexican restaurants and mainstream breakfast establishments. This positioning is further supported by a newly formalized brand identity strategy that builds on cultural heritage and longstanding neighborhood ties. The model also applies focus by centering its concept around Mexican brunch while expanding into new channels; specifically, digital delivery platforms and small-scale catering clientele, without abandoning its existing full-service format.

These strategies must be consistent and mutually reinforcing for a firm to sustain long-term advantage. In the case of a legacy business like *El Huarachito*, their integration within a single hybrid concept ensures strategic alignment across operations, branding, and market engagement. This thesis uses the framework to show how applying cost leadership, differentiation, and focus together can guide a transformation that's both culturally grounded and financially sustainable.

2.6.4. Stewardship Theory & Succession

Stewardship Theory, as outlined by Davis et al. (1997a), assumes that managers are intrinsically motivated stewards who prioritize the overall success of the organization over their personal gain, making trust and empowerment a more effective basis for managing the firm over control tactics. By contrast, Agency Theory views managers as self-interested agents whose goals may diverge from those of owners, requiring monitoring and incentive systems to align interests (Eisenhardt, 1989). In the context of family firms, Chrisman (2019) highlights that while socioemotional wealth, such as family harmony, reputation, and legacy preservation, motivate stewardship behaviors, their reliance on informal governance due to lower professionalization creates vulnerabilities. He concludes that stewardship theory is not sufficient on its own; effective governance requires integrating stewardship with agency approaches.

Succession illustrates these dynamics well, as it continues to be one of the most difficult challenges for family-run businesses. Sharma et al. (2003) find that the success of succession is strongly tied to the successor's confidence, which is influenced by perceptions of operational complexity and unclear expectations. Without a model that feels economically viable and personally fulfilling, successors often hesitate to take over. This generational hesitation is compounded by shifting priorities. Many younger family members are not disinterested in the family legacy, they're disinterested in outdated models. They want to carry the torch, but in ways that reflect modern realities like work-life balance, economic flexibility, and scalable systems.

Here, Stewardship Theory becomes especially relevant. According to Davis et al. (1997b), successors in family firms often view themselves as stewards, long-term caretakers of the enterprise rather than short-term maximizers of personal gain. In this view, modernization is not betrayal; it's stewardship through adaptation. Le Breton-Miller et al. (2004) support this by

arguing that effective succession requires aligning the family's strategic goals with business viability. Meanwhile, Nordqvist et al. (2013) frame succession as an entrepreneurial act: the next generation must find a way to preserve identity while also creating space for strategic renewal.

These perspectives collectively suggest that succession is not just about willingness, it's about the structure the next generation is being asked to inherit. When the model no longer matches the moment, succession stalls. A reimagined business model can serve as a bridge across generations, enabling stewardship through renewal.

3. Methodology

3.1. Survey Design

3.1.1. Survey 1 – In-House

Two surveys were developed to gather the primary data. The first, Survey-1, was conducted on-site at El Huarachito and targeted existing patrons during their dine-in experience. To encourage participation, diners were offered a small reward, a free taco, to complete the survey. QR codes to the survey were placed on every dining table using an eye-catching design on a menu table tent, and the wait staff were actively encouraging the diners to participate. The survey remained open for seven consecutive days to capture feedback across the full week's customer base. To reflect the bilingual nature of the clientele, the survey was available in both English and Spanish, ensuring accessibility to the restaurant's core customer groups.

Given that this was El Hurachito's first time formally surveying its customers during the dine-in visit, particular care was taken to ensure it was discreet and non-intrusive. It was designed to be brief and straightforward, ensuring that even the time-sensitive customers, such as those on lunch breaks, may participate comfortably without interrupting their meal. The survey focused on four main areas: restaurant visit habits (frequency, timing), satisfaction and choice measures (perceptions of food quality, service, factors influencing restaurant selection), general eating out and food delivery habits, and interest in potential restaurant upgrades and new offerings.

3.1.2. Survey 2 – Los Angeles Diners

The second survey, Survey-2, was developed to capture the preferences and behaviors of potential customers, focusing on Los Angeles-based residents who frequently dine out. This survey was administered through SurveyMonkey's targeted-audience survey feature and was distributed to 100 residences located in the greater Los Angeles Metro area who had visited a restaurant at least once in the last 30 days. The data from these 100 respondents was collected in less than 24 hours, providing a timely snapshot of local dining habits.

Survey-2 was designed to capture the insights from the broader Los Angeles restaurant market and did not explicitly mention El Huarachito. It was drafted to complement Survey-1's findings, mirroring its core themes while allowing for slightly deeper insights. Like Survey-1, the questions were kept intentionally concise to encourage completion, however, Survey-2 included additional opportunities for more detailed responses, such as assessing the level of importance assigned to each satisfaction measure, identifying popular cuisine types, and reporting on average spending per meal. Its primary focus areas included restaurant choice and satisfaction factors, general dining and food delivery habits, and interest in specific restaurant offerings. Since Survey-2 was administered through a paid panel, certain constraints applied. The researcher was limited in their number of targeted respondents, and the number of questions, and format of each question. However, SurveyMonkey collected and provided additional demographic data, such as gender and household income, that were intentionally omitted from Survey-1 to avoid discomfort among the on-site patrons. This additional insight enriched the dataset and provided a broader context for comparing the restaurant's in-house customers with the larger, local market.

3.2. Data Preparation and Cleaning

Survey 1 was administered through Google Forms and generated 78 responses, collected in both English and Spanish. The data was first exported into Excel, where it underwent cleaning and formatting before being prepared for quantitative analysis in R. The first step in preparing the data was to translate the response to ensure consistency across both languages. In designing the survey, particular attention was given to translation so that the Spanish items preserved the intended meaning of the English version and could be smoothly integrated into a single dataset.

Once combined, the next step was to standardize the format of the workbook for both clarity and analysis. Each question was aligned with its corresponding text label, creating an environment that allows the data to be reviewed cleanly and easily interpreted visually. At the same time, all responses were assigned numerical values according to their respective question-format. For example, categorical responses were coded on scales (e.g., Likert-scale responses coded from 1 = “Not Important” to 5 = “Very important”), ensuring the dataset was properly formatted for quantitative analysis.

For Survey 2, the first step was to export the raw data from SurveyMonkey into Excel. As with Survey 1, the raw data was reformatted into a more visually presentable structure, allowing the responses to be interpreted clearly at a glance. The data preparation began with the removal of non-essential metadata automatically generated by SurveyMonkey, such as respondent ID, start time, and device type. The response text was then cleaned and converted into numerical values according to each question’s format. For example, multiple-choice and checkbox responses were converted into binary variables (1 = selected, 0 = not selected).

Finally, for both surveys, the cleaned data was consolidated into a final dataset prepared for analysis. This version contained coded descriptions of each question and excluded all original text responses, leaving only numerical values across items. By applying the same structure to both surveys, the data was standardized and consistent across variables, producing a unified dataset fully prepared for quantitative analysis in R.

The questionnaire design limited our ability to enforce mutual exclusivity in Q2 (“3 Primary Reasons for choosing to dine at El Huarachito today?”). The survey platform could not disable other options when “This is my first time” was selected. To mitigate this, the question included a note instructing respondents that if it was their first time, they should select only that option. Nonetheless, some respondents selected “first time” alongside other reasons. This study treated “this is my first time” as an exclusive category; only respondents who did not select any other reason were retained as first-time. In total, 11 respondents marked “first time”; 5 did so exclusively and 6 with additional reasons, which were treated like regular responses based on their other reasons.

3.3. Analytical Approach

The analytical approach was selected because the primary objective of this study was to examine the market and demand side of El Huarachito’s operations. By combining descriptive statistics and cluster analysis, applied to both in-house customers and external Los Angeles diners, the survey provided a clear understanding of customer behaviors, preferences, and potential demand for new offerings. To complement these customer-centered findings, Porter’s Five Forces (*PFF*) was used to frame results within the external competitive environment. Analyzing both survey groups in parallel, plus the usage of PFF, allowed the study to identify the loyalty drivers among existing customers while also highlighting broader market opportunities, and seeing how the restaurant fits in with the current competitive landscape.

4. Data Analysis

This chapter presents the findings from both surveys and interprets them to get a clear picture of the restaurant’s customer base and the wider market. The analysis begins by exploring key patterns in demographics, behaviors and preferences, then forming connections to identify customer segments. It then applies Porter’s Five Forces to situate these findings within the competitive landscape.

4.1. Survey Data

4.1.1. Survey 1 – In-House Customers

Survey 1 (*Appendix A & B*) captured 78 completed responses. While most completed the survey in English (79.5%), nearly one in five answered in Spanish, highlighting the size and importance of the Spanish-speaking customer base. Most respondents are working-age adults, 25-44 (52.6%) and 45-64 (35.9%). Those 65+ accounted for 10.3% and the youth participation was nearly absent, with only 1 respondent of 78 under 25 (1.3%). “Local” customers were defined as those living in ZIP codes, the United States five-digit numerical postal code system, within 3 miles of the restaurant (90031, 90032, 90042, 90012). By this definition, 44.2% of the respondents are local and 55.8% live beyond 3 miles, indicating a strong community base with meaningful reach into adjacent neighborhoods.

Survey 1 — 90031 Area with 3-mile Ring
Window ~12 miles around 90031 (responses shaded)

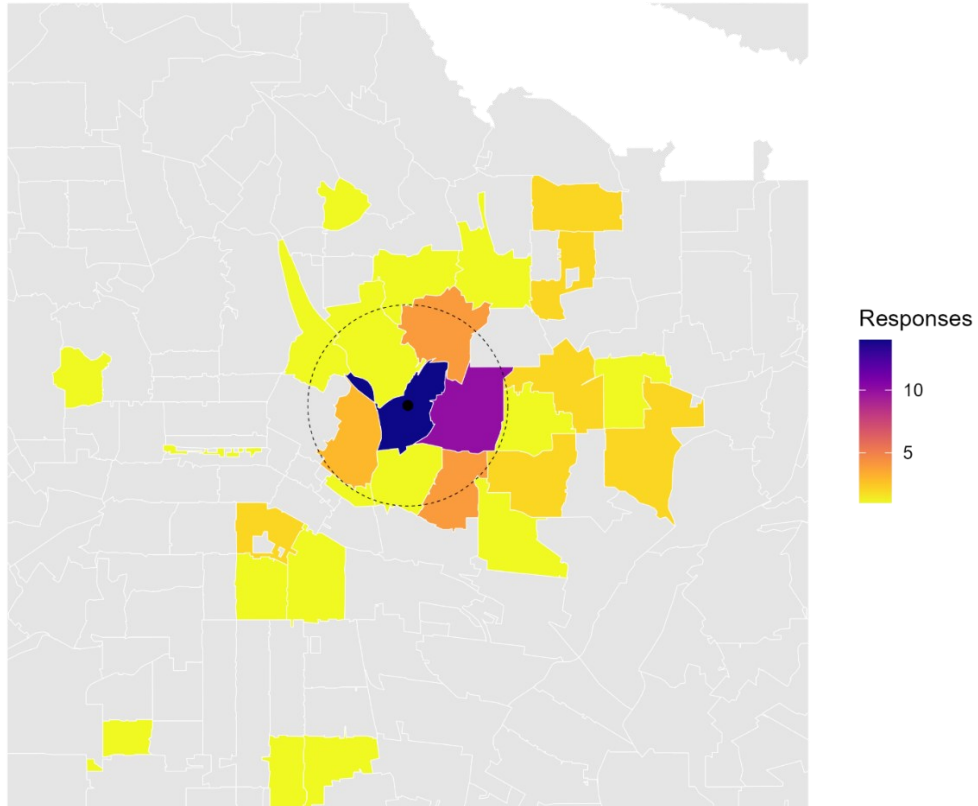


Figure 1: ZIP Map of Restaurant Customers (Source: SI Survey)

When asked what were main reasons why diners choose to eat at El Huarachito, a majority stated that it is because of the food and people. The authentic Mexican food (92%) is the most important driver, followed by the friendly staff (77%) and family atmosphere (55%). Taken together, these results identify a capability-based advantage: high quality food and great staff.

Top Reasons to Choose El Huarachito

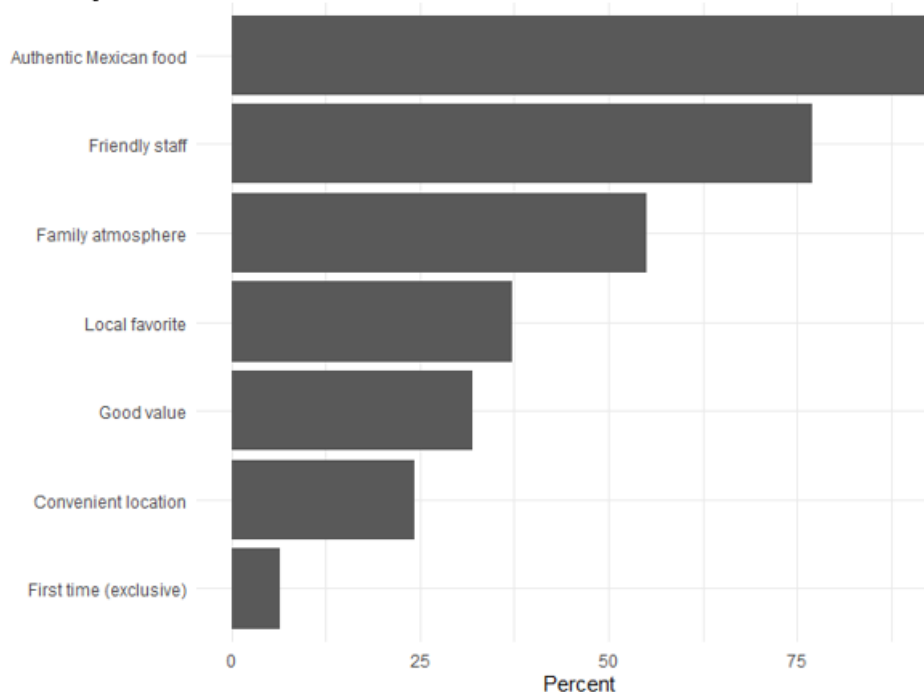


Figure 2: Customer Top Reasons to Choose El Huarachito (Source: SI Survey Data)

Regarding visit frequencies and general eating-out habits, the restaurant is anchored in repeated guests, with 34.6% visiting the restaurant once a month, 20.5% about once a week, and 12.8% more than once a week. The restaurant's daily business hours are from 7:00 AM – 3:00 PM. Most customers visit around the late morning (51.3%) and early morning (47.4%), with only 14.1% of respondents reporting to visit around the early afternoon, suggesting a potential area to focus efforts on. Nearly all respondents are frequent restaurant diners, with 60.3% eating out more than once a week and 33.3% about once a week. However, frequency in ordering delivery varies with the majority never ordering food delivery (28.2%) or a few times a year or less (23.1%). When eating out at restaurants, the majority of respondents are accompanied by their partners (59%) or family (57.7%), with only about 19% dining out alone.

When asked about their openness to potentially new offerings at El Huarachito, the highest interest was in the restaurant extending its services past 3pm, with small-scale catering and an enhanced Mexican-origin coffee showing the second and third most interested item.

4.1.2. Survey 2 – Targeted Los Angeles Diners

Survey 2 (*Appendix C*) was fielded to a SurveyMonkey panel of 100 Los Angeles-based diners. Similarly to Survey 1, the age profile skews working age, 25-44 (41%) and 45-64 (33%), with the smallest group being the under-25 group (8%). SurveyMonkey’s metadata also shows a near-even gender split (51% male/49% female) and a broad spectrum of household incomes across brackets. Respondents are geographically dispersed across the city, with the median residing 12.76 miles away from the restaurant. Despite having only one of the four “local” ZIP codes showing up in the panel (90012), that local ZIP code provides the largest share of responses of the entire survey (6.6%).

The Los Angeles panel are heavy restaurant frequenters, with 82% eating out multiple times a week (48% daily and 34% a few times per week). Their typical dining-out windows skew to the afternoons and early evening, with more than half choosing 1-4 PM (53%) and 4-7 PM (52%). Delivery was also part of the routine for many, with the majority ordering out more than once a week, and most commonly around the same dining-out time window of 4-7 PM (55%) and 1-4 PM (41%). When looking at the last 30 days, in-person dine-in leads all ordering formats (73%), with restaurant websites (57%), food apps (55%), and ordering in-person takeout (44%) also common. In recent food orders, the respondents most popular food choices were Pizza and Burgers, with Mexican showing to be the third most popular choice. The respondents showed a high interest in ethnic food, with Mexican, Chinese, Italian, Japanese, and Mediterranean all having been ordered in the last 30 days by roughly 30%. This is further highlighted by the *Other* text responses, as some mentions were ethnic based: Thai, Indian, Honduran, Vietnamese.

4.2. Cross-Tabulations & Chi-Square

To address RQ2, regarding the defining characteristics of the restaurant’s target audience, we used cross-tabulations with chi-square tests to identify which audience attributes (e.g., age, locality, dining/ordering frequency, etc.) are associated with high interest in new potential offerings (delivery, catering, Mexican coffee etc.)

4.2.1. Data Preparation

The analysis began by examining the two surveys, S1 (in-house diners) and S2 (broader LA market) and coding variables to make the surveys comparable:

- Behavioral frequencies (eating out; food delivery) frequencies, were coded to Rare / Occasional / Frequent.
- Local and non-local respondents were derived from zip codes (local = 90031, 90032, 90042 & 90012).
- 5-scale Likert range were converted into High Interest (Likert 4-5) or Not High (1-3).
- Timing variables were coded into Morning/Mid-Day/Evening
- Three working data sets were built: *s1_a*, *s2_a*, and a cross-survey frame *BOTH* with variables common to both surveys.

4.2.2. Method

For each predictor x outcome pair, a contingency table was created with rows = predictor categories and columns = outcome categories. To aid interpretation, counts were converted to row-percentages (each row sums to 100%) so results are read as within-group rates and are comparable across S1 and S2; however, all hypothesis tests use the raw counts, as required by the chi-square/Fischer procedures. For every pair, the null hypothesis is independence (the outcome distribution is the same across groups). Pearson's chi-square was used to compare observed vs $p \leq .05$ were deemed significant. For sparse 2×2 tables, we applied Fisher's exact test. We report bias-corrected Cramér's V (0–1; $\approx .10$ small, $\approx .20$ moderate, $\geq .30$ meaningful). Direction is summarized as Δ percentage points on the positive column (High/Frequent/Yes): for two-row tables (e.g., S1 vs S2), $\Delta = \text{Row2} - \text{Row1}$; for multi-row tables, direction is described from the row-% chart/table.

4.2.3. Results

Pair	N	p	V	Delta_pp	Method
S1: Age group × High interest in Mexican coffee	78	2.15E-04	0.5	-40.9	Chi-square
Cross: Survey group (S1 vs. S2) × Delivery frequency category	153	0.00213	0.284	27.9	Chi-square
S2: Delivery frequency × High interest in early-bird specials	75	0.00514	0.375	-48.9	Chi-square
S1: Age group × High interest in catering	78	0.00607	0.399	-38.2	Chi-square
Cross: Survey group (S1 vs. S2) × High interest in early-bird specials	178	0.00816	0.21	21.1	Chi-square
S1: Delivery frequency × High interest in delivery service	78	0.00912	0.347	-5.8	Chi-square
Cross: Survey group (S1 vs. S2) × High interest in catering	178	0.0114	0.201	20.3	Chi-square
S1: Usually eats with friends × High interest in Mexican coffee	78	0.0173	0.296	29.9	Chi-square
S1: Delivery frequency × High interest in late-day hours (past 3pm)	78	0.0176	0.322	44.6	Chi-square
S1: Usually eats alone × High interest in vegetarian options	78	0.0292	NA	-29.8	Fisher exact (2x2)
S2: Local vs. non-local × High interest in early-bird specials	100	0.0356	NA	45.7	Fisher exact (2x2)
S2: Local vs. non-local × High interest in merchandise	100	0.0356	NA	45.7	Fisher exact (2x2)
S2: Delivery frequency × High interest in imported items	75	0.0376	0.296	-20	Chi-square
S1: Reason for visit = local favorite × High interest in delivery service	78	0.0384	0.263	-25.7	Chi-square
S2: Delivery frequency × High interest in catering	75	0.0468	0.286	0	Chi-square

Table 1: Chi-Squared Tabulation (Source: Combined Survey Data)

The results of the Chi-Squared tabulations can be found in table 1: Because a large number of cross-tabulations were tested, only associations that were both statistically significant ($p \leq .05$) and met a minimum effect-size threshold (Cramér's $V \geq .20$, or Fisher's $p \leq .05$ for 2×2 tables) were retained for detailed interpretation. This ensures that the discussion emphasizes relationships that are not only statistically reliable but also substantively meaningful. Applying this filter reduced the set of 15 significant results to 6 core findings presented below.

1. **S1: Age × High interest in Mexican coffee** — $p \approx 0.0002$; $V = 0.50$ (large); $N = 78$. Younger diners over-index on Mexican coffee interest; older bands under-index.

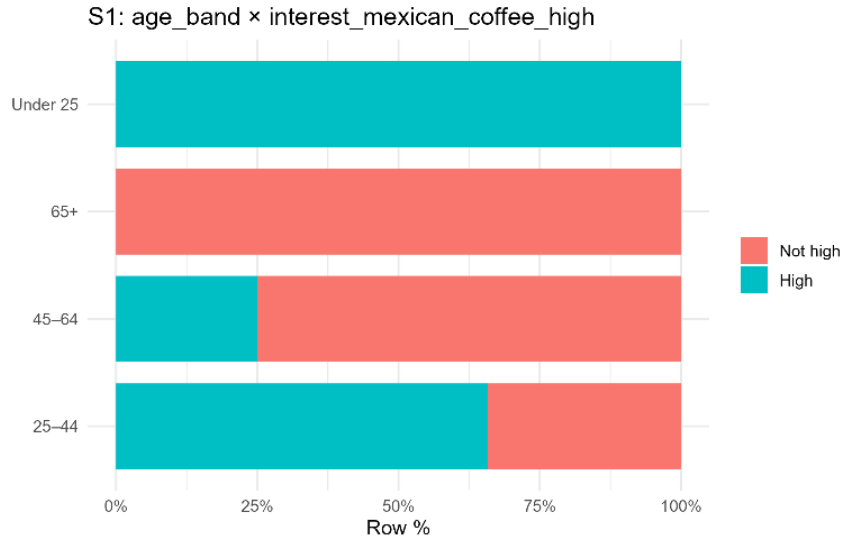


Figure 3: Tabulation Result 1 - Age x High Interest in Mexican Coffee (Own Figure)

2. Cross: **Survey group** × **Delivery frequency** — $p \approx 0.002$; $V = 0.284$ (moderate); $\Delta = +27.9$ pp (S2 – S1); $N = 153$.
The market (S2) contains substantially more Frequent delivery users than in-house (S1).

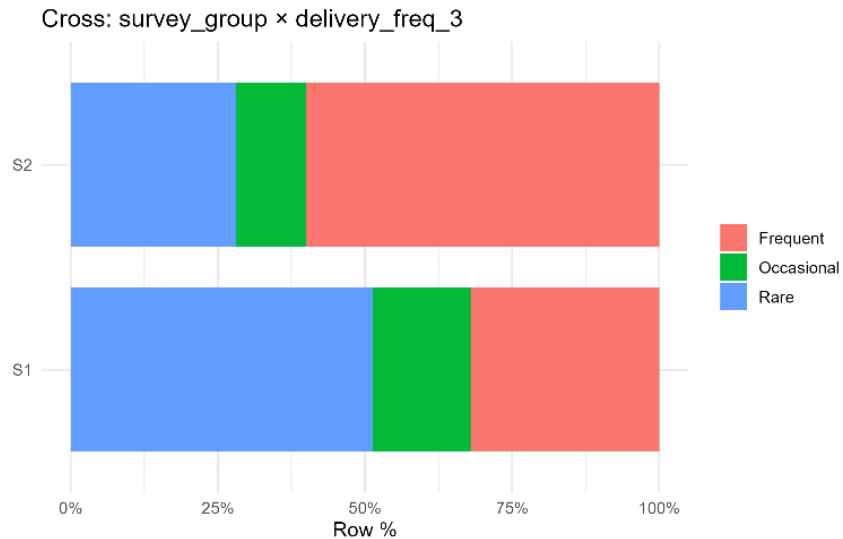


Figure 4: Tabulation Result 2 – Survey Group x Delivery Frequency Category (Own Figure)

3. S2: **Delivery frequency** × **High interest in Early-Bird** — $p \approx 0.005$; $V = 0.375$ (meaningful); $N = 75$.
Heavy delivery users are especially interested in Early-Bird.

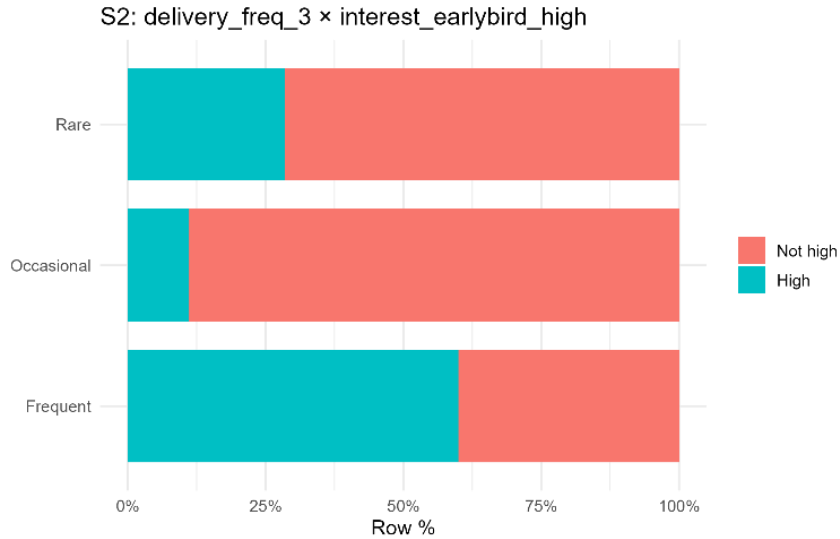


Figure 5: Tabulation Result 3 – Delivery Frequency Category x High Early Bird Interest (Own Figure)

4. S1: Age × High interest in Catering — $p \approx 0.006$; $V = 0.399$ (meaningful); $N = 78$.
Younger in-house diners show higher Catering interest.

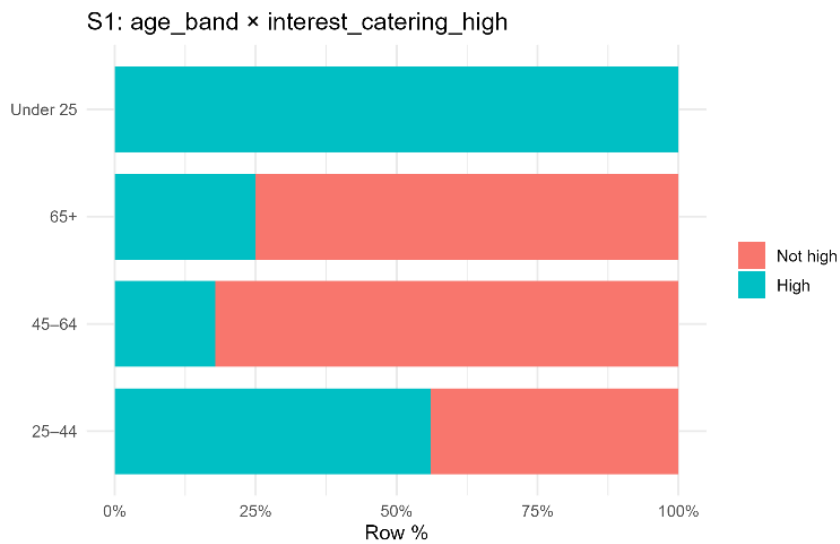


Figure 6: Tabulation Result 4 – Age x High Catering Interest (Own Figure)

5. Cross: Survey group × High interest in Early-Bird — $p \approx 0.008$; $V = 0.210$ (moderate); $\Delta = +21.1$ pp (S2 – S1); $N = 178$.
Early-Bird interest is higher in the market than among current diners.

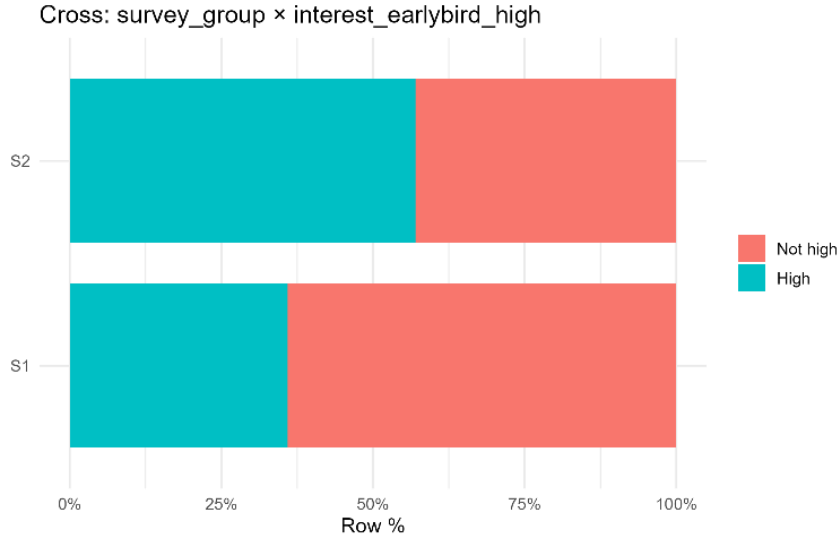


Figure 7: Tabulation Result 5 – Survey Group x High Early-Bird Interest (Own Figure)

6. S1: Delivery frequency × High interest in El Huarachito delivery — $p \approx 0.009$; $V = 0.347$ (meaningful); $N = 78$.

In-house guests who often order delivery are especially receptive to EH delivery.

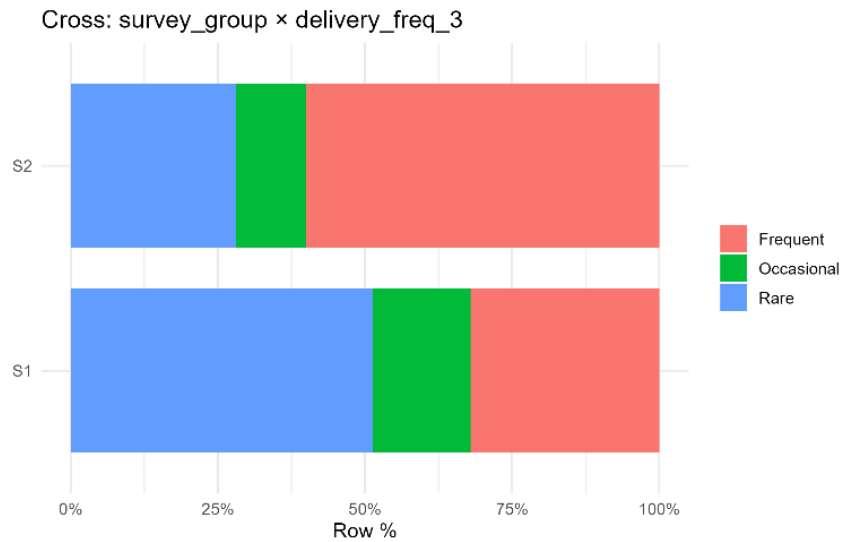


Figure 8: Tabulation Result 6 – Delivery Frequency x High El Huarachito Delivery Interest (Own Figure)

4.2.4. Interpretation

The research suggests distinct demand signals across customer groups. Younger in-house customers showed a strong interest in both an enhanced Mexican coffee program and small catering offerings, indicating a strong opportunity for new revenue streams. The Los Angeles survey group demonstrated heavier usage of food delivery and greater interest for Early-Bird promotions, especially among the more frequent delivery user, suggesting a potential avenue to incorporate delivery and Early-bird offerings as a means of reaching new customer markets with limited risk of cannibalizing dine-in revenue.

4.3. Customer Segmentation (K-Means)

4.3.1. Method

The combined pooled dataset of both surveys was segmented using shared behavioral variables and z standardized. To identify distinct segments within the customer base, a K-means clustering procedure was applied to the pooled dataset of both surveys. Segmentation was based on shared behavioral variables common to both surveys. K-means solutions for $k=2, \dots, 6$ were evaluated by the elbow (total WSS) and silhouette; the selected model is $k=[6]$ with average silhouette $S=0.93$ (Figure 10), and aligned with an elbow at $k=6$ (Figure 9).

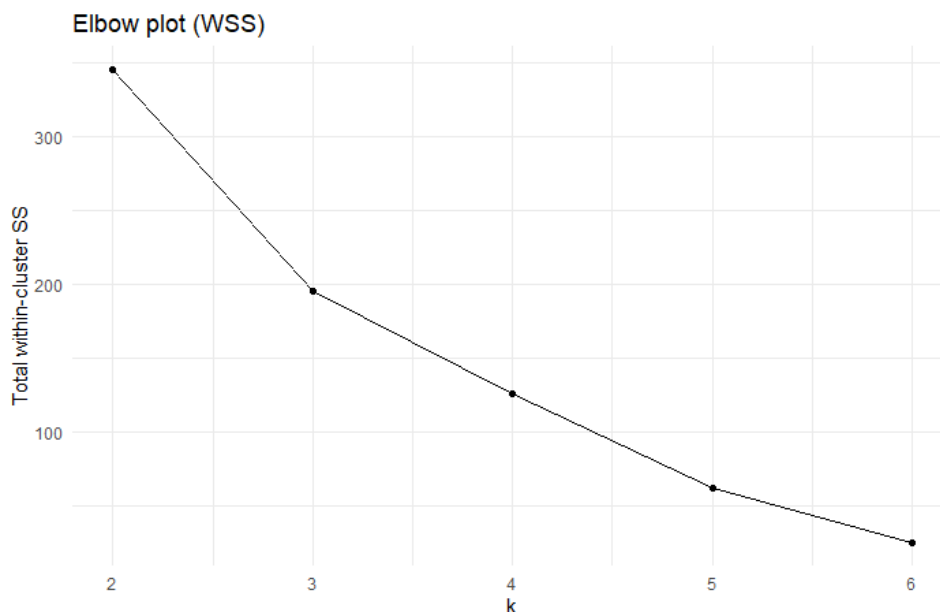


Figure 9: Elbow Plot (Own Figure)

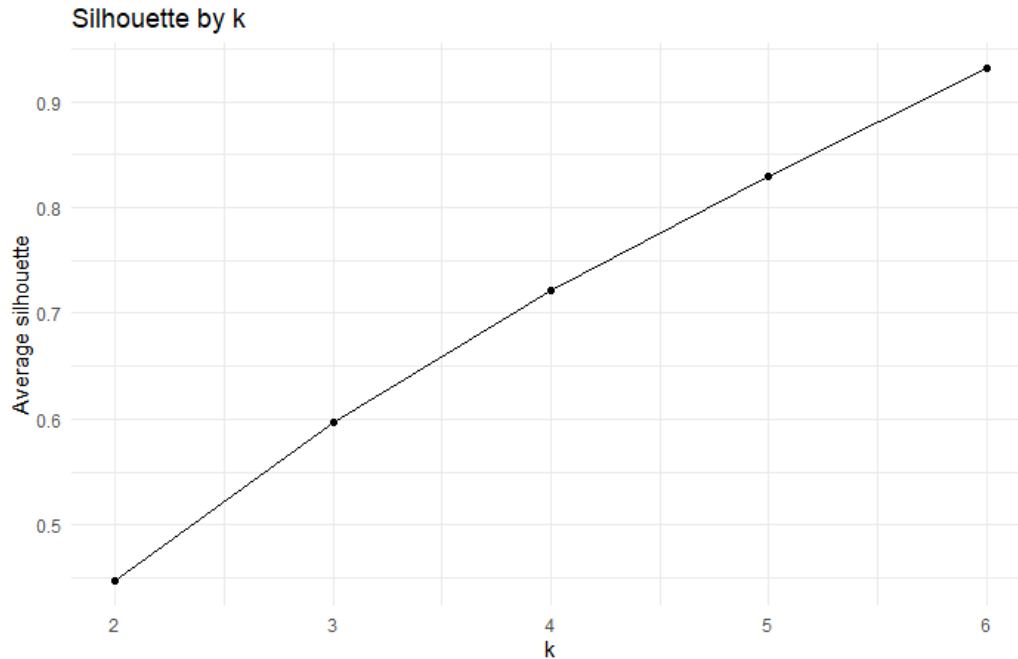


Figure 10: Silhouette Plot (Own Figure)

4.3.2. Results & Cluster Profiles

Cluster sizes were balanced (smallest = C4: n=13, 7.3%; largest = C3: n=46, 25.8%; see Table 2, *K-Means Cluster Sizes*). Standardized means show clear contrasts across dine-out frequency, delivery frequency, and dayparts, indicating distinct usage patterns suitable for interpretation (Table 4.1b Standardized means by cluster).

K- Means Cluster Sizes

Cluster	n	%
C1	31	17.4
C2	20	11.2
C3	46	25.8
C4	13	7.3
C5	28	15.7
C6	40	22.5

Table 2: K-Means Cluster Sizes (Source: Combined Survey Data)

Standardized Means by Cluster per Dayparts

Cluster	Before 10am (z)	10am – 1pm	1-4pm (z)
C1	1.57	-0.89	-0.68
C2	1.57	1.12	0.29
C3	-0.63	1.12	-0.75
C4	-0.63	1.12	1.33
C5	-0.63	-0.89	-0.75
C6	-0.63	-0.89	1.33

Table 3: Standardized Means by Cluster per Dayparts (Source: Combined Survey Data)

Clusters by Source (In-House vs Survey Panel)

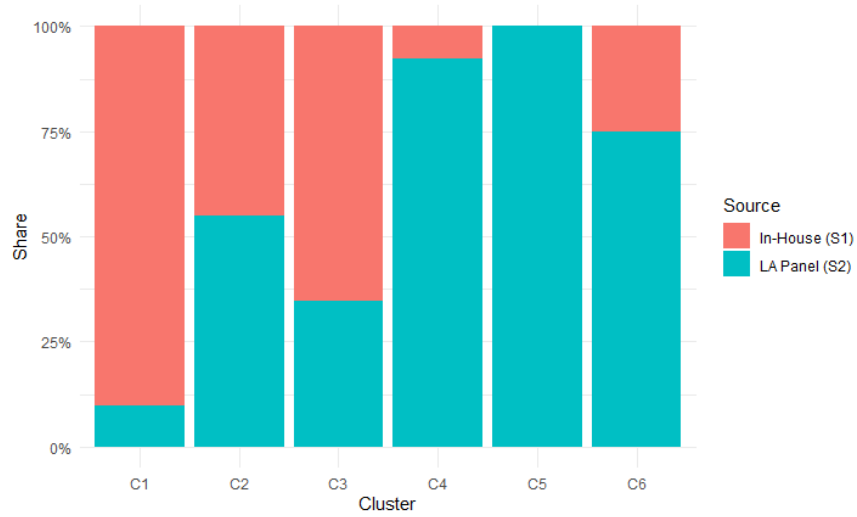


Figure 11: Standardized Means by Cluster (Source: Combined Survey Data)

K- Means Cluster Profiles of Dining and Ordering Behaviors

Cluster	Peak daypart(s)	Channel/frequency	Size (share)	Source mix*	Interest in EH offerings
C1	Before 10am	Visit: Avg-High; Delivery: Low	~ 17.4%	Core (S1-anchored)	Early bird; Mexican coffee
C2	Before 10am & 10am – 1pm	Visit: Avg; Delivery: Avg	~ 11.2%	Mixed	Delivery; Service past 3pm
C3	10am – 1pm	Visit: Avg-High; Delivery: Low	~ 25.8%	Core (S1-majority)	Delivery; Catering (modest)
C4	10am – 1pm & 1- 4pm	Visit: Low-Avg; Delivery: Low	~ 7.3%	Growth (S-2 dominant)	Vegetarian options
C5	Before 10am, 10am – 1pm, 1 - 4pm	Visit: Avg; Delivery: Avg	~ 15.7%	Growth (S-2 only)	n/a
C6	1 – 4pm	Visit: Avg; Deliver: Avg	~ 22.5%	Growth (S-2 skewed)	Service past 3pm

Table 4: Cluster Summary (Source: Combined Survey Data)

Clustering reveals six behaviorally distinct groups organized by peak daypart. The early-day clusters align with the incumbent customer mix, whereas later-day clusters are disproportionately external, indicating where expansion efforts should focus. The clusters with the largest shares present some actionable strategies worth exploring: the implementation of delivery services, offering catering packages, extending operating hours past 3pm and offering early bird specials with an enhanced Mexican coffee program.

4.4. Competitive Analysis

The competitive analysis (*Table 4*) examines the Mexican restaurant landscape in Lincoln Heights (ZIP 90031), the neighborhood surrounding El Huarachito. The findings reveal a highly competitive environment dominated by independent, family-owned businesses, which constitute 89% of local establishments and maintain a high average Google review rating of 4.38. A significant digital gap is also apparent. While El Huarachito operates without online ordering, 55.6% of competitors offer it. Similarly, 88.9% have a social media presence, as indicated by an

Instagram account, which the combined competitor group have an average of 1,672 followers (excluding two large outliers).

El Huarachito enjoys a competitive advantage in customer perception with a 4.5 Google rating, further showcasing the strengths of its food and service. Its Instagram follower count of 2,404 is also above the local average, suggesting more digital attention. However, this potential is currently untapped, as the account has been inactive for a year and has not had a formalized social media strategy. El Huarachito's specialty in Mexican breakfast also places it in a highly contested market, with 72.2% of its local competitors offering a similar menu and 78% also offering coffee. Despite this intense competition, several opportunities do exist. Only 22% of total restaurants offer catering, with just one of those being a full-service restaurant.

Additionally, of the nine total full-service restaurants in the area, only one is open past 5 PM, suggesting an unaddressed market for evening dining. Both areas represent expansion opportunities that align with shifting consumer preferences identified in the survey analysis

Taken together, this competitor analysis suggests two strategic adaptations: digital engagement as a competitive tool and exploring selective service expansions, such as catering and later-day services. This insight allows the restaurant to build on its existing strengths within the local competitive area and expand beyond its current constraints.

El Huarachito's Local Competitor Analysis

Competitor	Structure	Type	Google Review Rating	Number of Reviews	Price Range	Hours	Online Ordering	Website	Social Media	Instagram Follower Count	Catering	Mexican Breakfast	Coffee
<i>El Huarachito</i>	<i>Independent, Family-owned</i>	<i>Full-Service</i>	<i>4.5</i>	<i>779</i>	<i>\$10-20</i>	<i>7 AM - 3 PM</i>	<i>No</i>	<i>Yes</i>	<i>Yes</i>	<i>2404</i>	<i>No</i>	<i>Yes</i>	<i>Yes</i>
El Arco	Independent, Family-owned	Full-Service	4.6	212	\$10-20	11 AM - 9 PM	Yes	Yes	Yes	6750	No	Yes	Yes
Little Rodeo Mexican Restaurant	Chain	Fast Casual	4.3	798	\$10-20	9 AM - 9 PM	Yes	Yes	Yes	3984	Yes	Yes	Yes
Carne Asadas Pancho Lopez	Independent, Family-owned	Full-Service	4.5	463	\$10-20	9:30 AM - 4:00 PM	Yes	Yes	Yes	16400	No	Yes	Yes
Taqueria La Naranja	Independent, Family-owned	Limited Services	4.4	1304	\$1-10	8:00 AM - 11:30 PM	No	Yes	Yes	815	Yes	No	No
Playita Restaurant	Independent, Family-owned	Limited Services	4.2	130	\$10-20	9 AM - 9 PM	Yes	Yes	No	0	No	No	No
La Morenita	Independent, Family-owned	Full-Service	4.3	274	\$10-20	8 AM - 4 PM	No	No	Yes	186	No	Yes	Yes
Viva Tacos La Estrella	Independent, Family-owned	Limited Services	4.4	327	\$10-20	9 AM - 9 PM	Yes	Yes	Yes	297	No	No	No
Los Tres Cochinitos	Independent, Family-owned	Full-Service	4.6	656	\$10-20	9 AM - 3 PM	No	Yes	No	0	No	Yes	Yes

Competitor	Structure	Type	Google Review Rating	Number of Reviews	Price Range	Hours	Online Ordering	Website	Social Media	Instagram Follower Count	Catering	Mexican Breakfast	Coffee
G.E Chano's Drive Thru Mexican Food	Independent, Family-owned	Limited Services	4.4	1275	\$10-20	6 AM - 9 PM	Yes	No	Yes	1450	No	Yes	Yes
The Original Carnitas Michocan	Independent, Family-owned	Fast Casual	4.2	2932	\$10-20	24 hours	No	Yes	Yes	1291	No	Yes	Yes
Maya's Restaurant	Independent, Family-owned	Fast Casual	4.4	421	\$10-20	8 AM - 5 PM	Yes	No	Yes	510	No	Yes	Yes
Marthas Kitchen	Independent, Family-owned	Full-Service	4.1	66	\$10-20	8 AM - 5 PM	Yes	Yes	Yes	60	No	Yes	Yes
El Camaron Pelado	Independent, Family-owned	Full-Service	4.2	394	\$10-20	10:30 AM - 5 PM	No	No	Yes	1196	No	No	No
King Taco #8	Chain	Limited Services	4.1	2208	\$10-20	8:30 AM - 10 PM	No	Yes	Yes	50000	No	No	Yes
Wendy's Tortas	Independent, Family-owned	Full-Service	4.3	1042	\$10-20	9 AM - 5 PM	Yes	Yes	Yes	4165	No	Yes	Yes
Maracas Café and Cateering	Independent, Family-owned	Full-Service	4.4	427	\$10-20	7 AM - 3 PM	No	Yes	Yes	2048	Yes	Yes	Yes
Almaya	Independent, Family-owned	Fast Casual	4.9	38	\$10-20	9 AM - 9 PM	Yes	Yes	Yes	1639	Yes	Yes	Yes

Table 4: El Huarachito Competitor Analysis (Source: Google Maps, Instagram, Restaurant's Websites)

4.5. Porter's Five Forces

To understand the market-side pressures facing traditional family-owned restaurants in the US, this section applies Porter's Five Forces framework (Porter, 1979), a foundational tool in strategic management used to assess industry competitiveness. Applied here, the framework provides a structure for examining how these smaller, legacy restauranters compete in an increasingly crowded and fast-changing U.S. dining market. As a whole, the overall market for a traditional Mexican restaurant in the Los Angeles is intensely competitive, as show in Figure 5.

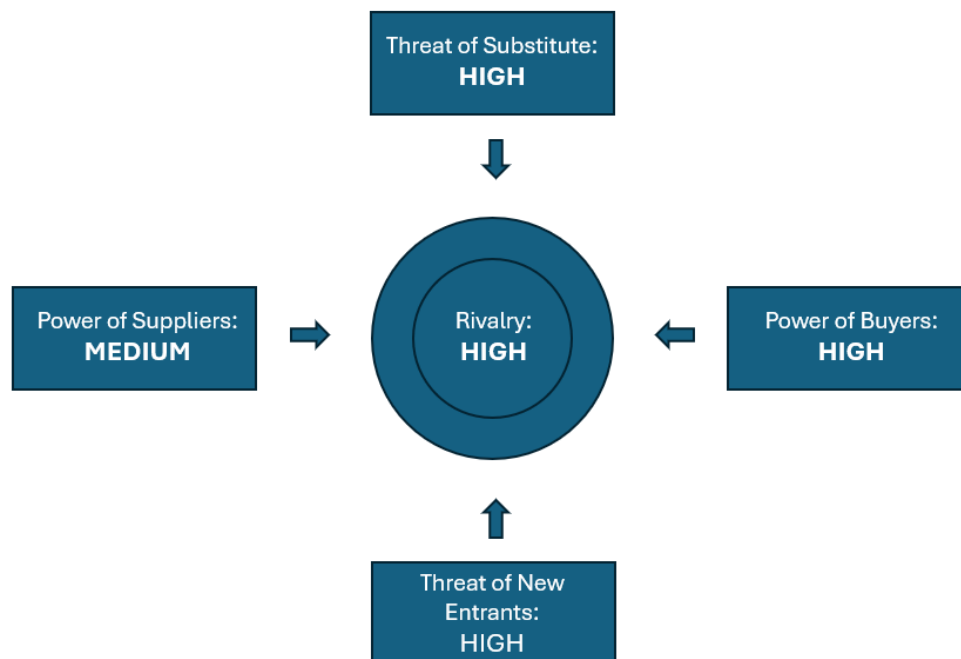


Figure 4: Porter's Five Forces Overview

4.5.1. Competitive Rivalry

The rivalry among existing competitors in El Huarachito's neighborhood is intensely high, largely due to market saturation and a high concentration of quality, family-operated Mexican restaurants. While broader research shows that over 62% of restaurants in Los Angeles are independently owned (Gase et al., 2019), this is even more pronounced in Lincoln Heights, where the analysis found that 89% of the 18 competitors identified are independent, family-

owned businesses. This creates a market where success depends heavily on reputation and quality, as evidenced by a consistently high average Google review rating of 4.38 across the competitive set. El Huarachito's specialization in Mexican breakfast places it in a highly contested market, as 72% of competitors offer Mexican breakfast and 78% serve coffee. The competition is further intensified by the presence of large chains that benefit from greater economies of scale. The combined effect of market saturation, a high concentration of quality competitors, and direct rivalry in key offerings creates a highly precarious operating environment where long-term survival is far from guaranteed.

4.5.2. Threat of New Entrants

The threat of new entrants in the restaurant industry is intensely high. As Talamini et al. (2022) observe, on-demand food delivery (ODFD) platforms weaken the traditional dependence on a physical location, enabling new digital-focused businesses to operate as ghost kitchens in low-cost spaces with no dining services on site. The competitive dynamic of these digital platforms have a profound, two-fold impact on market competition, as described by Li (2020). While these services provide a new distribution channel, they also intensify price competition and diminish a business's unique differentiation, which particularly disadvantages independent restaurants. This is a current reality, as the competitive analysis shows that 55.6% of local rivals have already adapted to offering online and delivery services, a readily accessible entry point for new entrants.

4.5.3. Threat of Substitutes

The threat of substitutes for El Huarachito is high and growing, driven by consumer demand for convenience and value. While the restaurant's traditional dine-in experience offers a unique value proposition, it faces increasing competition from convenient, low-cost alternatives. These include the expanding ready-to-eat sections in grocery stores, which provide a quick and affordable substitute for a sit-down meal, and the vibrant Mexican street food culture of Los Angeles, with its numerous taco stands and food trucks that offer an authentic, fast, and low-cost dining option. This threat is further amplified by the growth of meal prep services and Home Meal Replacements (HMRs), which are projected to reach a global market of \$156.8 billion by

2025 (Bumbudsanpharoke & Ko, 2022), directly competing for a customer's food budget by providing a convenient and often health-conscious alternative to traditional dining.

4.5.4. Bargaining Power of Suppliers

A significant portion of a restaurant's operating expenses is tied to the cost of food goods. According to the USDA's August 2025 Livestock, Dairy, and Poultry Outlook (2025b), this vulnerability is particularly acute for El Huarachito's key ingredients: beef, chicken, pork, and eggs. The report forecasts a 21% increase in cattle prices in 2025, with pork prices expecting to be 17% higher in Q3 2025. As a breakfast-focused business, the restaurant also faces market volatility for eggs, with production down and prices subject to fluctuation. This supplier power is a direct threat to a small, independent operator with limited ability to absorb these price increases. However, the USDA report also offers a potential strategic opportunity: with poultry production increasing and prices moderating, the restaurant may consider adjusting its menu to feature more chicken-based dishes to mitigate the rising costs of beef and pork. This combination of upward pricing pressure and market volatility gives suppliers significant leverage over El Huarachito's operational costs and financial stability.

4.5.5. Bargaining Power of Buyers

The bargaining power of buyers in Los Angeles is extremely high, as the city is home to the country's largest Mexican food market. According to a Pew Research Center analysis, while 11% of all restaurants in the United States serve Mexican food, that concentration is far more pronounced in California, which is home to 22% of the nation's total. Los Angeles County alone accounts for 30% of the state's Mexican restaurants, giving buyers immense leverage and making customer loyalty difficult to secure (Widjaya & Shah, 2024). This level of market saturation gives buyers immense leverage and makes customer loyalty difficult to secure. This power is further amplified by technology. As Khan (2020) notes, digital convenience has empowered consumers to demand faster service and seamless delivery experiences. Your competitive analysis confirms this trend, showing that a high number of competitors offer online ordering. This allows consumers to compare options and switch between restaurants with minimal effort. This easy access to a vast number of high-quality options is a primary reason why El Huarachito

must actively adapt its business model to retain and attract customers in a market where buyers are highly empowered to dictate their terms.

5. Discussion

This chapter presents a cohesive strategic framework for El Huarachito by synthesizing the research findings through the lens of the four theoretical frameworks. The analysis shifts from diagnosing external pressures to designing strategic responses, showing how El Huarachito can leverage its distinctive resources, adapt to structural market shifts, and position itself for both resilience and growth.

5.1. Resource-Based View (RBV): The Strategic Foundation

The modernization strategy for El Huarachito is built upon on the Resource-Based View (RBV), identifying two of its most unique and non-imitable assets as:

1. **Its rich, authentic Mexican culinary expertise.**

The survey shows that 92% of customers are driven by the food quality and its authentic flavor, demonstrating a sustainable competitive advantage coming from decades of cooking experience and long-tenured kitchen team of Mexican immigrants with the cultural background and knowledge of regional recipes that cannot be easily reproduced or replaced.

This asset provides the foundation for differentiation. By adopting streamlining processes throughout its operations, the strategy aims to reduce the day-to-day inefficiencies, freeing capacity for the kitchen team to channel their expertise into product innovation. Unique, hard-to-replicate dishes become not only a cultural strength but a strategic lever, positioning El Huarachito to sustain a defensible market niche.

2. **Its friendly staff and family atmosphere.**

As the second main driver of customer choice, which draws in 77% of customers, this intangible resource is a direct result of long-standing family ownership, the involvement of multiple family members in daily operations, and a core team of long-tenured staff who treat both customers and each other like family.

5.2. Porter's Competitive Advantage Theory (PCAT): Strategic Positioning

With the restaurant's core strengths identified by the Resource Based View, Porter's Competitive Advantage Theory provides a framework for how El Huarachito can strategically position itself in the local market by applying all three of Porter's strategies: differentiation, cost leadership, and focus.

5.2.1. Differentiation

The strategy uses the restaurant's RBV assets to create a distinct and defensible identity in a highly competitive landscape. Rather than competing solely on price, El Huarachito can stand out by leveraging its rich culinary expertise and unique family-oriented atmosphere. As a restaurant with minimal marketing experience, an online social media campaign is not just a digital marketing tactic; it is designed to communicate the authentic culinary tradition and the multi-generational family story. This effort transforms an intangible asset into a powerful brand narrative, differentiating the restaurant from both independent competitors and larger chains that lack this personal touch.

5.2.2. Cost Leadership

The competitive analysis and literature review highlighted the high bargaining power of suppliers and the volatility of food costs, particularly for key ingredients like beef and pork. Rather than treating these price fluctuations as unavoidable cost pressures, El Huarachito can proactively convert them into strategic opportunity, by strategically redesigning its menu to feature more affordable options, such as poultry currently. This shift not only relieves cost pressures but also reinforces value to customers by maintaining affordability without sacrificing quality. Similarly, the expansion into delivery should be viewed as an opportunity to maximize asset efficiency. By leveraging fixed costs already absorbed into the dine-in business, El Huarachito can extend its reach with a streamlined delivery menu centered on its most cost-efficient signature items.

5.2.3. Focus

The strategy applies a focused approach by targeting specific, underserved market segments revealed by the survey research. The data from existing customers and the broader Los Angeles market reveals a clear opportunity in later dayparts and new service formats. Specifically, younger diners show a high interest in a Mexican coffee program and small-scale catering, while the broader market shows interest in delivery options and extended hours. These initiatives allow the restaurant to capture new revenue streams, including the younger demographic, which is currently the least represented customer base.

5.3. Business Model Innovation

To address the paper’s core problem, the growing pressures that traditional restaurant models face by an evolving market, this section provides the strategic blueprint through the lens of the Business Model Innovation framework. By applying insights from the RBV and PCAT analyses, the following table outlines six actionable initiatives designed to reconfigure how the business creates, delivers, and captures value:

Business Model Innovation: Strategic Initiative Value Map

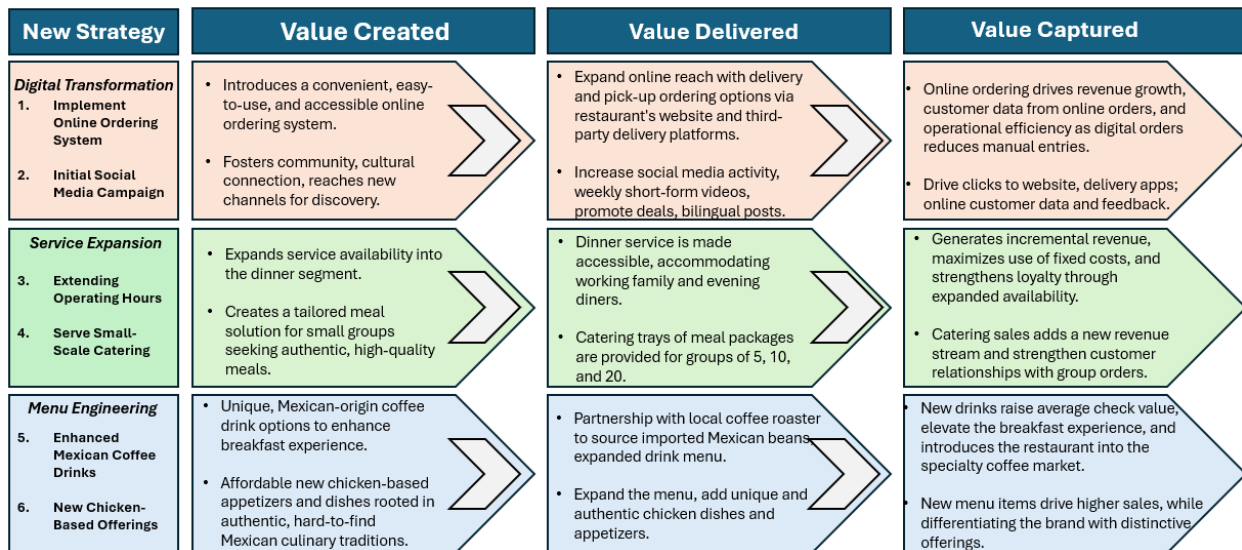


Figure 5: Business Model Innovation Strategic Initiative Value Map

5.4. Stewardship Theory

Stewardship Theory provides the guiding rationale for the restaurant's long-term direction. The proposed strategy is not only about improving operations in the present but about creating a model that the next generation is willing and able to carry forward. By framing modernization as an act of stewardship, the initiatives, digital transformation, service expansion, and menu engineering, become tools for ensuring continuity of the family legacy in a way that feels viable, relevant, and fulfilling for future successors.

At the same time, stewardship on its own is not enough. For continuity to be sustainable, the model must also incorporate the structural discipline and accountability emphasized in agency principles. A re-envisioned strategy therefore blends the two: honoring family stewardship as the cultural anchor, while reinforcing it with systems, governance, and economic clarity. Together, these elements position the business for renewal and intergenerational resilience.

6. Conclusion

This thesis evaluated how a legacy, family-owned restaurant can adapt to emerging market pressures without losing its identity. Drawing on dual-survey evidence and a competitive analysis, the study identified the restaurant's two core internal strengths: culinary authenticity and a family-like atmosphere with friendly staff. The study provides a strategy that applies Porter's Competitive Advantage Theory to position the restaurant optimally. These core strengths to establish the foundation for modernization. The proposed strategy:

1. Implement an online ordering system to expand digital reach and capture delivery demand.
2. Launch a social media campaign aimed to reactivate customer engagement and strengthen visibility.
3. Extend operating hours into the dinner segment to address unmet local demand.
4. Introduce small-scale catering services tailored to families, community events, and group dining.

5. Develop a Mexican coffee program that expands the drink menu, strengthens the breakfast positioning and engages new, younger customer segments.
6. Add new chicken-based offerings to address short-term cost pressures while offering authentic Mexican dishes that highlight culinary creativity.

Through the lens of Business Model Innovation, these initiatives recognize how the restaurant creates, delivers, and captures value, shifting from an informal, traditional-bound model toward a structured platform capable of sustaining growth. Finally, Stewardship Theory provides the long-term rationale to the modernization strategy, framing it as a way to preserve cultural roots while building a model that is sustainable and transferable across generations.

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Appendices

Appendix A: Survey One (English)

Thank you for dining at El Huarachito!

This survey is part of my academic research and your participation is very important to me. Your responses are highly valued and will directly support the success of my master's thesis. The questionnaire takes about 5 minutes to complete. All answers are anonymous and will be analyzed only in aggregate form.

I sincerely appreciate your time and attention.

1. What are your top 3 primary reasons for choosing to dine at El Huarachito today?

(select up to 3)

Note: If this is your first time here, please select only that option and skip the rest.

- Authentic Mexican food, great taste and quality
 - Friendly and welcoming staff
 - Homely, family-like atmosphere
 - Good value for money
 - Convenient location
 - Long-standing favorite, local go-to
 - This is my first time
2. How often do you visit El Huarachito?
 - More than once a week
 - Weekly
 - About once a month
 - Rarely (a few times a year or less)
 - This is my first time
 3. When do you usually visit El Huarachito?
 - Early Morning (7 AM - 10 AM)
 - Late Morning (10 AM - 1 PM)
 - Early Afternoon (1 PM - 3 PM)
 4. How interested would you be in El Huarachito offering the following?:

(Rate each from 1 to 5: 1 = Not Interested, 5 = Very Interested)

- Ordering El Huarachito from delivery apps like UberEats or Doordash
 - Small catering bundles for group gatherings or family meals
 - El Huarachito staying open past 3 PM with dinner service
 - A special "Early Bird" menu before 9 AM
 - Expanded menu of coffee drinks featuring Mexican-sourced coffee
 - A greater variety of authentic, traditional Mexican vegetarian and vegan dishes
5. How important is a restaurant's overall look and feel to your dining experience?
1 = Not Important at All, 2 = Slightly Important, 3 = Neutral, 4 = Important, 5 = Very Important.
6. How often do you eat out?
- More than once a week
 - About once a week
 - About once a month
 - Rarely (a few times a year or less)
7. Who do you usually go out to eat with?
- Alone
 - With a partner or spouse
 - With family
 - With friends
 - With coworkers
 - Other
8. How often do you order food delivery?
- More than once a week
 - About once a week
 - About once a month
 - Rarely (a few times a year or less)
 - Never
9. What is your age range?
- Under 25
 - 25-44
 - 45-64
 - 65 +

10. What is your zip code? *(optional)*

Appendix B: Survey One (Spanish)

¡Gracias por visitar El Huarachito!

Estoy haciendo esta encuesta como parte de mi tesis de maestría y tu opinión es muy valiosa para mí.

Solo toma unos 5 minutos, es completamente anónima, y las respuestas se analizarán de forma general.

Agradezco mucho tu tiempo y apoyo

1. ¿Cuáles son tus 3 razones principales para elegir comer en El Huarachito hoy?

(selecciona hasta 3)

Nota: Si es tu primera vez aquí, selecciona solo esa opción y no marques las demás.

- Comida mexicana auténtica, con gran sabor y calidad
 - Personal amable y amistoso
 - Ambiente familiar
 - Buen precio
 - Ubicación conveniente
 - Favorito de siempre / Clásico del barrio
 - Es mi primera vez aquí
2. ¿Cada cuánto visitas El Huarachito?
- Más de una vez por semana
 - Una vez por semana
 - Aproximadamente una vez al mes
 - Con poca frecuencia (aproximadamente una vez al año)
 - Es mi primera vez aquí
3. ¿A qué hora nos visitas usualmente?
- Temprano por la mañana (7 AM - 10 AM)
 - Media mañana (10 AM - 1 PM)
 - Inicio de la tarde (1 PM - 3 PM)

4. ¿Qué tanto te interesarían las siguientes posibles ofertas de El Huarachito?:
(Califica cada una del 1 al 5: 1 = Nada Interesado, 5 = Muy Interesado)
- Pedir El Huarachito por apps de entrega como UberEats o DoorDash
 - Paquetes pequeños de catering para reuniones o comidas familiares
 - El Huarachito abierto después de las 3 PM con servicio de cena
 - Menú “Early Bird” con precio especial antes de las 9 AM
 - Más opciones de bebidas de café con origen Mexicano
 - Más variedad de platillos mexicanos tradicionales, vegetarianos y veganos
5. ¿Qué tan importante es la apariencia y el ambiente del restaurante?
1 = Nada Importante, 2 = Poco Importante, 3 = Neutral, 4 = Importante, 5 = Muy Importante.
6. ¿Qué tan seguido comes fuera de casa?
- Más de una vez por semana
 - Aproximadamente una vez por semana
 - Aproximadamente una vez al mes
 - Con poca frecuencia (unas pocas veces al año o menos)
7. ¿Con quién sales a comer normalmente?
- Solo/a
 - Con pareja o esposo/a
 - Con familia
 - Con amigos/as
 - Con compañeros/as de trabajo
 - Otro
8. ¿Qué tan seguido pides comida a domicilio?
- Más de una vez por semana
 - Aproximadamente una vez por semana
 - Aproximadamente una vez al mes
 - Con poca frecuencia (unas pocas veces al año o menos)
 - Nunca
9. ¿Qué edad tienes?
- Menos de 25 años
 - 25 a 44 años
 - 45 a 64 años
 - 65 años o más

10. ¿Cuál es tu código postal? (*optional*)

Appendix C: Survey Two (Los Angeles Dining Panel)

1. How often do you eat out at restaurants?
 - More than once a week
 - About once a week
 - About once a month
 - A few times a year

2. When do you typically eat out at restaurants? (Select all that apply)
 - Before 10:00 AM
 - 10:00 AM - 1:00 PM
 - 1:00 PM - 4:00 PM
 - 4:00 PM - 7:00 PM
 - 7:00 PM - 10:00 PM
 - After 10:00 PM

3. How often do you order food delivery?
 - More than once a week
 - About once a week
 - About once a month
 - A few times a year
 - Rarely or never

4. When do you typically order food delivery? (Select all that apply)
 - Before 10:00 AM
 - 10:00 AM - 1:00 PM
 - 1:00 PM - 4:00 PM
 - 4:00 PM - 7:00 PM
 - 7:00 PM - 10:00 PM
 - After 10:00 PM

5. In the last 30 days, how have you ordered food from restaurants? (select all that apply)

- I have not ordered from or eaten at a restaurant in the last 30 days.
 - Dined in at the restaurant
 - Ordered through a restaurant's own website
 - Ordered through a third-party delivery app (e.g., DoorDash, Uber Eats)
 - Called the restaurant and ordered directly
 - Walked in and ordered takeout
6. What types of cuisine have you ordered in the last 30 days? (select all that apply)
- I have not ordered from or eat at a restaurant in the last 30 days.
 - Burgers
 - Pizza
 - Chinese
 - Mexican
 - Italian
 - Japanese
 - Mediterranean
 - Other (please specify)
7. When eating out, how much do you usually spend per person? (excluding tip)
- Under \$15
 - \$15 - \$24.99
 - \$25 - \$39.99
 - \$40 or more
8. When ordering delivery, how much do you usually spend per person? (excluding tip)
- Under \$15
 - \$15 - \$24.99
 - \$25 - \$39.99
 - \$40 or more
9. When eating out, how much do you usually spend per person? (excluding tip)
- Under \$15
 - \$15 - \$24.99
 - \$25 - \$39.99
 - \$40 or more
10. How interested would you be in restaurants offering the following:

Please rate each on a scale of 1 to 5 (1 = Not at all interested, 5 = Very interested):

- Early-bird value breakfast deals (e.g., before 9AM)
- Small catering bundles (for group gatherings, family meals)
- Brunch pop-ups around Los Angeles
- Seasonal limited-time menu specials
- Branded merch from local, independent "mom & pops" restaurants
- Dishes made with imported, region-specific ingredients

11. What is your age range?

- Under 25
- 25 - 44
- 45 - 64
- 65+

12. What is your zip code?