

# teaching note

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## Case Summary

This case study can be used during the instruction of a range of hospitality courses such as Sales & Marketing, Operations Management, Restaurant Management, and Entrepreneurship. The issues in the case are not complex, but they have interesting depth and discussion of these lead both to good learning and self-introspection on the part of the students. The assignment asks students to consider the current state of the restaurant and to suggest a plan of action for the Pasinatos' future. The case works best with students who have at least a rudimentary level of competence reading and working with financial statements. The case and its additional readings provide an excellent opportunity to introduce and apply the concepts of revenue management and pricing. Students should prepare a short business style report that offers their analysis and suggestions for the couple and their business using one of the following suggested assignments. Students should play the role of a hired consultant. Some suggested scenarios are provided below.

- Oscar and Tracy have decided to have children and need to make necessary changes to the operation to allow time for their kids. What changes would you suggest to make this happen?
- Oscar must leave for several months to care for an ailing family member, but needs the financial support of the restaurant. What changes should Tracy make to continue operations without Oscar?
- Oscar and Tracy would like to increase their income and reduce their time commitment to the daily operations of Buko Nero. What strategies would you suggest to achieve both of these desired outcomes?
- Oscar and Tracy would like to utilize technologies to increase their income from Buko Nero and reduce their time commitment to the daily operations of Buko Nero. What technologies should they engage to achieve both of these desired outcomes? Hint: social media

The case has been found to work well in a 75-minute class with brief student presentations, or within a 50-minute class with faculty guided discussion. The additional readings can be incorporated in one of two ways. The first approach is to complete the supplemental readings before the case study. The second approach withholds the readings until after the students complete their first attempt at the case. This approach requires two class periods because students are asked to repeat the case with a pricing and revenue management strategy. Experience with this case in the classroom has revealed that very few students present alternatives that utilize pricing or other revenue management strategies without being lead in that direction with

the readings.

## Discussion Topics

Alternatives 1 thru 4 represent the most common suggestions presented by students. These alternatives seem to require more of Tracy and Oscar, not less. Alternative 5 presents the intended lesson of the case and the related readings.

### 1. Hire additional staff.

#### - Advantages

- Would take pressure of Tracy and Oscar and allow them more time away from the restaurant. Would perhaps work best with Oscar hiring a sous chef to do prep work in the afternoon (the kitchen is too small for two chefs to work at the same time), and a hostess for the front of the house, allowing Tracy to focus solely upon the guests. Also could hire someone to do the bookkeeping.
- The additional staff could be trained to cover for the Pasinatos, allowing the restaurant to stay open during times of the year they now close.

#### - Disadvantages

- Can they afford to do so? If these employees, both likely part-time were to cost as little as S\$35,000 per year, the result would be a drop in income from the S\$135,000 (Table 1) to a level that would not be acceptable to the owners.
- How would guests feel about the experience if they visited during a time that either Tracy or Oscar were not present

### 2. Open a second location.

#### - Advantages

- Financially this could indeed be successful. Financial analysis should result in a significant increase in profitability. If the second location was the same size and run exactly the same as the first, the only changes to the financial results for the second property would be the result of hiring an additional chef for one location, and a hostess/server for the other. Therefore, from Table 1, one could project net income from two restaurants to be as much as approximately S\$200,000, based upon the following calculation:  $S\$135,000 \times 2 - (\text{cost of two employees @ approximately } S\$70,000) = S\$200,000$ .
- A second location would also have the advantage of separating Tracy and Oscar, before spending 24 hours together every day begins to wear on their marriage.

#### - Disadvantages

- Recognizing that the special feel of the restaurant comes from the attentiveness of Tracy, able to make each guest

special, is it possible for this to be cloned in a new location?

- This would entail a financial risk, something the Pasinatos do not seem comfortable with, or perhaps capable of financially, at this time.
- Would require Tracy and Oscar to become employers, and they do not seem to have any interest in being responsible for employees at this stage of their careers.
- If the second location was not as successful as the first, what would that do to the reputation of the original Buko Nero?
- Is not the cachet of getting a reservation at Buko Nero part of the attraction of the place? A second location is likely to dilute this competitive advantage.
- This might be financially feasible but it requires an additional time commitment

### 3. Move to a larger location.

#### - Advantages

- Financially this could work. More tables would mean more revenue and indeed be successful. Financial analysis should result in a significant increase in profitability. (Students it would be hoped would take the numbers in Table 1 and calculate what they would project as the new level of earnings. A doubling of size should work out to earnings of approximately: S\$135,000 x 2 – (cost of two additional employees @ approximately S\$70,000) = S\$200,000 – the same calculation as the second location consideration.)
- It is debatable whether the difficulty of getting a reservation is a positive or a negative for the restaurant. The plusses are the virtual guarantee of a full house every night, as guests will alter their booking date to fill available slots, and the cachet attached to one's good luck in securing a reservation. The negative is the potential impact on loyal guests who might get frustrated and move on. A good discussion question that follows from this entails what the students would suggest are good ideas to handle loyal guests, which might include saving tables for walk-ins and a frequent dining club membership.

#### - Disadvantage

- Will a larger place be able to maintain the current special feel? Frequently restaurants expand to a larger location, or take over the empty next-door storefront, only to see the place lose its luster. Would that happen here with more guests and less attention from Tracy?

### 4. Other alternatives and points of discussion.

- Other additional suggestions that students sometimes consider include opening or closing additional weeks and

franchising. Clearly these too have their financial and operational issues.

- Another option would be to sell out and start anew, as the pressure they are putting on themselves is simply too great to endure.

### 5. Pricing and revenue management alternatives.

- A suggestion that students seem reluctant to offer is that the prices at the restaurant be increased. Their reluctance stems from the owner's feeling that their guests would not be accepting of such. But consultants are not paid to tell their clients what they wish to hear. In this case a raise of prices by a relatively modest 15% would increase the lunch price to S\$26 and the dinner price to S\$41, which seems justified by the quality of the product. The result of this would be an increase in revenue to S\$335,000. Expenses would not change (faculty might have to have a discussion with students on why food costs could stay unchanged, 'breaking the 1/3 food price rule'), and an increase in net income to S\$178,000, and increase of 24%. Would the guest accept this? Would the increase in profits solve all their problems? These are the questions that must be addressed. The supplemental readings provide an excellent introduction to restaurant revenue management.
- Why only one sitting per night, as reflected in the financial statements? Tracy feels that they want guests to linger as long as possible, and this does not allow them to accept reservations for tables that might not turn. Also, to get a second table turn would require bunching of reservations into an early and late seating block, and there is concern that they would not be able to handle the intense rush of having so many orders coming into the kitchen at once. The current staggered seating spreads these out over a more comfortable timeframe. But students should at least consider the option and discuss the pros and cons. The additional readings will guide the possible alternatives.
  - For those rare students that address pricing in their initial case analysis, use their analysis as the segue into the value pricing and revenue management readings.

## Additional Readings

The following order of readings is suggested. The first reading—borrowed from a seminal book on revenue management by Cross (1997, pg. 52-54)—introduces the concept of revenue management in the most simple of businesses, a single chair barbershop. This one is appropriate to read to the class or tell as a short story. The second reading by Lewis and Shoemaker (1997) introduces the student to price-sensitivity measurement and the common misconceptions of

price by hospitality operators. The next reading by Kimes (1999) provides a strategic approach to implementing revenue management strategies in restaurant operations. The fourth reading by Kimes and Wirtz (2002) addresses the concerns of value pricing and revenue management in restaurant operations. The final reading by Anderson and Xie (2010) provides students a summary of the collective work in hospitality revenue management over that last 25 years. These readings were selected to guide the course of action being proposed by the students and to improve the case alternatives developed by students.

Anderson, C.K. & Xie, X. (2010). Improving Hospitality Industry Sales: Twenty-five years of revenue management. *Cornell Hospitality Quarterly*, 51(1), 53-67.

Cross, R.G. (1997). *Revenue Management: Hard-core tactics for market domination*. New York: Broadway Books, 52-54.

Kimes, S.E. (1999). Implementing Restaurant Revenue Management. *Cornell Hotel and Restaurant Administration Quarterly*, 40(3), 16-21.

Kimes, S.E. & Wirtz, J. (2002). Perceived Fairness of Demand-based Pricing for Restaurants. *Cornell Hotel and Restaurant Administration Quarterly*, 43(1): 31-37.

Lewis, R.C. & Shoemaker, S. (1997). Price-sensitivity Measurement. *Cornell Hotel and Restaurant Administration Quarterly*, 38(2), 44-54.

## Final Thoughts

Tracy and Oscar have accomplished their dream, but they need to face reality and find ways to make this dream a happy one, and not ultimately a nightmare. Lifestyle design is an important element to any solution proposed by the students. It is interesting how success has created such problems. They have a range of options, none of which they find appealing. But doing nothing simply seems unworkable in the longer run. Plans need contingencies, and management must be flexible. Successes should have rewards. In this case the rewards do not seem sustainable, and Tracy and Oscar must evaluate options carefully to make sure their next step takes them to a new level of success.

Students easily see and are attracted to the personal issues in the case, but the real learning comes from making them support their suggestions with numbers. The overzealous student typically designs alternatives that take enormous risks such as opening a new location, but fail to address the concerns of Tracy and Oscar. The application of revenue management to Buko Nero could provide some valuable increases in income and reduced time commitment. Students should be able to make the fit between the operating characteristics of Buko Nero and the revenue management strategies addressed in the additional readings.

Postscript: Ten years after this case was written, several changes have occurred. First, Tracy's mother-in-law helps in the evening. They only serve lunch on Friday and Saturday and dinner from Tuesday to Saturday. They are closed on Sunday and Monday. These modifications were made to protect their health and provide quality time with each other. Interestingly, revenue management strategies and pricing strategies have yet to enter the equation.

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