

The Broken Restaurant, A Task Force Case Study

Learning Objectives

Students completing this case study will be able

1. To discuss the concept and process of performance benchmarking in a multi-unit organization.
This case uses an “upper quartile” benchmarking process in which the various metrics from the top performing units are used to establish performance goals for the remainder of the units. The instructor may choose to discuss the process of linking these performance benchmarks to unit management incentive compensation/sanctions and to discuss the use of benchmarking to encourage “friendly competition” within a multi-unit organization.
2. To examine market share and use it to make business decisions.
The case provides both unit and benchmark information about market share performance. This provides an opportunity for the instructor to discuss the concept of market share rather than raw volume or dollars as the critical measurement of unit revenue performance. In the hotel space, market share has long been a very critical measurement. Increasingly in the restaurant space it will be, as firms like STR Global ramp up their restaurant competitive performance services.
3. *To outline the service-profit chain and the importance of measuring guest satisfaction.*
The case uses a fairly standard set of guest response measurements. This can provide the instructor with an opportunity to discuss the importance of these measurements, analyze their correlation and also discuss the difficulty in translating guest satisfaction scores to a profit measurement. The focus of the case is deliberately on the financial analysis and “fixing the profit issues first”, however a discussion about the components of guest satisfaction is an important tangent of the case.
4. To utilize productivity measurement to benchmark labor costs.
The key concept here is the measurement of productivity (man hours per unit sold) as a benchmark, rather than a labor dollar cost or a percentage of revenue method. In a multi-unit operation, the wage rates are different in various markets, and so in order to most appropriately measure the unit performance, benchmarks are focused on productivity. This is a critical element of this case and a very important concept for students to understand.
5. To assess fixed and variable expenses.
Instructors will have the opportunity to demonstrate the behaviour of fixed and variable expenses in the context of unit management control and in the estimation of profit improve-

ment whether based on price or volume. This is an excellent applied approach to these concepts.

6. *To interpret cost of sales and its relationship to inventory balances in the restaurant environment.*
7. To judge the implications of specific profit improvement recommendations.
8. To justify the results of analysis and recommendations for improvement in a professional and convincing manner.

The case study is designed so that instructors may have each group present one or more of their findings and recommendations to the class. This opens up rich and engaging conversations in the classroom and the opportunity for deeper learning about the impact or reasonableness of the various improvement recommendations. It also allows the instructor to discuss the importance of using and influencing rather than coercive management style.

Prior to Class

- Instructors should review the excel file which accompanies the case (the contents of this file are included in this document as figures) and make any adjustments they choose in order to emphasize or de-emphasize areas.
- Instructors should determine how many specific items they wish to have the students identify as a requirement of the case, and how many recommendations for management action that need to be included. This is a factor of the time the instructor wishes the students to devote to the case and/or the time available for presentation. The case itself should be modified to reflect this decision.
- Instructors should also decide which areas they wish to include/exclude in the case. For example, the instructor may elect to eliminate the Guest Satisfaction data or the balance sheet data in order to focus the case strictly on the income statement and benchmarking data.
- It is helpful for the students if the excel file (as modified by the instructor) is made available to them electronically. Much of their calculations for profit improvement may be made directly on the spreadsheet without the necessity of re-entering data.
- Instructors may also want to change the years reflected in both the case study and the associated excel file to keep the dates “current”.
- Prior to class, students should be asked to read the case study and any additional reading materials on benchmarking and

multi-unit performance the instructor selects to make available.

Class Instruction

Phase I - 50 to 75 minutes

This class period has three important topics that will help students understand the theoretical context of the case study.

1. The need for continuous Improvement.

- Begin the class with an open discussion about the need for a business to continually evolve and improve in order to remain successful. The following are some recommended discussion points.

a. Continual improvement is a requirement of all business. The status quo is not ever acceptable. Those businesses which achieve greater market share and profitability are able to grow faster, attract and retain top talent, and access capital markets less expensively.

b. A business must improve faster than its competition is improving, or it will become less competitive by definition. Simply “being good” is not enough.

c. In the restaurant industry, achieving a sustainable competitive advantage—one which may not be easily replicated by competitors—is extremely difficult because the consumer experience is always public.

i. This is an opportune time for the instructor to ask for current, real life examples of new ideas which have been replicated by competitors. Some early examples are the introduction of the drive through window, the introduction of a breakfast day part in the fast food segments and the introduction of take out processes in the casual dining segment. The popularity of small plate items, capitalizing on the “Farm to Fork” or sustainable foods trends, the use of mobile paging systems for guest queuing and seating, the increasing use of mobile and tablet ordering systems, and the introduction of automated self service beverage systems (Coca-Cola Freestyle) are a few.

2. The importance of external (industry) competitive benchmarking.

- Continue by introduce the concept of benchmarking as a tool both measure competitive positioning and to improve performance. Discuss with the class the sources of industry benchmarking information, such as the National

Restaurant Association’s research and performance data.

- The instructor may assign students the task of identifying sources of industry benchmarking they can find on the internet (either publically available or through private companies).

3. Internal benchmarking for multi-unit companies.

- Despite either highly similar or identical physical layouts, equipment, standards policies and procedures, menus, recipies, food products and production specifications – there is always a level of variability in performance.

a. Ask the class where they may have experienced something unexpectedly different in a multi-unit chain (for example a great experience in one and a poor experience in another).

b. Discuss what the reasons for this variability might be – given the standardization above. Steer the conversation to the inevitable conclusion that these variances can be largely attributed to the leadership of the units.

- Introduce the students to the concepts of internal performance benchmarking.

a. How the most important metrics are identified and measured.

b. The identification of a “best performing group” of units, typically the upper performing quartile. Note that his case study uses the upper quartile as the performance goal for the company.

1. Explain why it is helpful to use the average of a group of high performing units, rather than the single best performing unit to establish goals.

c. The use of this information to establish unit performance goals, incentive compensation, and sanctions/disciplinary action for units that are “failing”.

d. How internal metrics can be used to continually raise the performance bar for a company as a whole, and against its competition.

Phase II - 50 to 75 minutes

This class period will focus the students on the critical benchmarks of the case. How they are arrived at, why they are important, and how the financial impact of improvement may be calculated. It is important that for each of these areas, the instructor demonstrate how changes in these would impact profitability. It may be helpful for the instructor to provide the calculation reference included in this case (Figure 8) for the students to use for their calculations.

1. Market Share

- A critical point to emphasize is that in the restaurant industry, we do not control demand. Therefore, measuring “success” by increases or decreases in revenue is not particularly useful.
 - a. As a simple example, discuss with the class what would happen if a restaurant achieved a year-over-year revenue growth of 5%. Would the management be deemed successful?
 - b. Now discuss what that would mean in the context of a 10% revenue growth in that market. Would the management still be deemed successful?
- Introduce the concept of a “competitive set” – those restaurants in each market with which your restaurant competes.
 - a. In the hotel industry, this information is generally available through STR Global.
 - b. In the restaurant industry, there are a number of companies that can provide this information for a fee, including STR Global.
- A business should be measured by the share of the demand they capture – whatever that demand is in a given market. Ideally, each unit should capture the share of demand being captured by the units in the upper quartile or other company benchmark. If demand in a market is increasing, the unit must be able to capture a relative portion of the increasing demand. True also in declining demand situations
- Demonstrate the financial implication of improving market share
 - a. Revenue divided by current market share (%), then multiplied by goal market share (%). This would equal the revenue of the unit if it had achieved the goal market share.
 - b. Subtract the actual revenue from the revenue achieved at goal. This would equal the growth in revenue if the goal market share were reached.
 - c. Discuss how that additional revenue would be converted to profit
 - i. Instructors may elect to briefly discuss fixed versus variable costs at this point, or to cover this in depth.

2. Payroll productivity

- Discuss why the use of payroll productivity as measured by man-hours per unit produced (a cover in this case) is a more effective measurement than payroll dollars or payroll as a per-

centage of revenue.

- a. Wage rates vary by location, and are driven by legislative or competitive factors not necessarily under the control of management. A restaurant in Orlando, Florida would have a very different hourly wage rate than a restaurant in Manhattan.

- i. Have the students go to the Bureau of Labor Statistics, Occupational Employment Statistics page for North Dakota as a wonderful example of where very high labor demand is driving up wage rates for jobs of all kinds in the area.

- b. Given the standardizations of the multi-unit organization, what can and should be measured therefore is the amount of time it takes to produce one unit (cover). This would be the same regardless of location, and is largely controllable by management. Have the class provide you with the tasks management can perform to insure staff is working at their most productive. Some likely items which will arise for discussion are:

1. Adherence to staffing guides.
2. Forecasting and scheduling to demand.
3. Aggressive management of overtime.
4. Training, setting and maintaining expectations.
5. Making certain all equipment needed is available and in working condition.

- c. Demonstrate the calculation of financial impact that would be achieved by bringing any one job from a “current” low level of productivity to a benchmark. Instructors may select one job from the case, or use a simple hypothetical example if they wish.

- i. Change in productivity per unit X number of units sold = change in man hours (at the given volume produced).

- ii. Multiplied by the rate per hour and the benefit expense per hour (either as a dollar per hour or a % of payroll wage expense).

- d. Highlight for the students the impact of benefit cost on productivity improvement and the fact that these improvements can mean significant financial changes to a business unit.

3. Cost of Sales.

- Explain (or review) the calculation for the cost of sales for

an individual revenue source (in this case, Food, Liquor, Beer and Wine).

- Explain (or review) the relationship between changes in inventory values and the cost of sales.
 - a. There are benchmark statistics for inventory turnover, as it is an important metric for this restaurant operating company.
 - b. Explain the theoretical concepts of minimizing inventory values in order to discourage loss from theft or spoilage, but maintaining sufficient inventory to meet the production of all menu items.
 - iii. In the process of reviewing the changes in inventory values, the instructor will need to focus on the fact that while the optimization of inventory values is a noble goal (see ii above), changes in turnover do not in and of themselves necessarily result in changes to cost of sales. The purpose of including these statistics in the case is to drive home the fact that changes in the balance sheet are the result of operations, and although important, are typically the result of and not the cause of cost problems.
- Explain (or review) the concept of measuring food cost per cover, rather than as a % of revenue.
 - a. Although it is traditional to measure cost of sales as a % of revenue, this may not be the best metric to judge performance. This case deliberately makes this point.
 - b. Instructors may want to demonstrate via a simple example how a “cost problem” can be “solved” by raising the average check, rather than actually solving the cost problem, and how this is a very typical “go to” for restaurant establishments.
 - i. Ultimately however, by failing to find and solve the root cause issues, the restaurant risks competitively overpricing itself and losing customers, without ever having solved the problem.
 - c. By focusing on a cost per cover, the company eliminates revenue as a component of the cost equation (not true of i above).
 - i. Explain that in a large national chain such as this one, there would normally be national sourcing agreements for almost all food and beverage items, and so the cost any unit would pay for their food and beverage product would necessarily be within a narrow band.
 - ii. Note also that although covers and beverage

revenues are separated by meal period, costs are not. Instructors should ask the class to explain why this is so, and why the difficulty in doing so would outweigh the potential benefit.

- Reinforce the notion that the costs of food and beverage are directly variable, and therefore it is very important to measure them as such.
- Instructors should demonstrate for the class the calculation of a change in cost on profitability for both a cost of food per cover, and a change in the cost percentage for a beverage category.

4. Direct Expenses

- Discuss the importance of management understanding which direct expenses are variable and which are fixed or semi variable.
- Benchmarks have been published in the case for total direct expenses per cover, however there are both variable and fixed costs in the case.
- Instructors should demonstrate for the class the calculation of profitability if a direct expense were to be reduced (fixed or variable).

Phase III - Student Completion of Case

In this phase, students will complete their work to identify the X (instructor determined) most financially impactful areas for this management team to focus on, and their recommendations for X (instructor specified) specific action steps management should take for each.

Instructors may choose to have this work completed outside of class, or to devote some or all of one class period to allow the students to work in their groups (or individually) and ask specific questions. The authors find this method to be very helpful, and it allows the instructor to answer any one question from a team (or individual) for all of the team members simultaneously.

The case is structured so that the end product is a letter to the management of the failing restaurant, outlining the team (or individual's) recommendations. Instructors may wish to modify this requirement so that the team (or individual) is responsible to present one (or more) of their solutions to the class.

Guest Satisfaction is measured on a scale of 1 (poor) to 10 (excellent). Guests are encouraged to submit their satisfaction scoring either on a written card (available in the restaurant unit) or via email (information provided on the guest receipt).

Figure 1

Benchmark Metrics Report

Unit 705						
Benchmark Metrics Report						
For the Year ending December 31						
	Unit 705			YoY Change	Systemwide Upper Quartile	Variance
	2012	2013				
Market Share	28%	20%	-28.6%		32%	-12%
Lunch						
Average Daily Covers	229	221	-3.3%		235	(14)
Average Daily Food Check	\$ 11.80	\$ 11.60	-1.7%		\$ 12.10	\$ (0.50)
Liquor Sales Per Cover	\$ 0.59	\$ 0.58	-1.7%		\$ 0.85	\$ (0.27)
Beer Sales Per Cover	\$ 0.83	\$ 0.81	-1.7%		\$ 1.02	\$ (0.21)
Wine Sales Per Cover	\$ 0.47	\$ 0.46	-1.7%		\$ 0.50	\$ (0.04)
Total Revenue Per Cover	\$ 13.69	\$ 13.46	-1.7%		\$ 14.47	\$ (1.01)
Dinner						
Average Daily Covers	441	431	-2.3%		465	(34)
Average Daily Food Check	\$ 19.10	\$ 18.80	-1.6%		\$ 19.50	\$ (0.70)
Liquor Sales Per Cover	\$ 1.91	\$ 1.88	-1.6%		\$ 2.10	\$ (0.22)
Beer Sales Per Cover	\$ 2.87	\$ 2.82	-1.6%		\$ 2.95	\$ (0.13)
Wine Sales Per Cover	\$ 2.29	\$ 1.88	-18.0%		\$ 3.00	\$ (1.12)
Total Revenue Per Cover	\$ 26.17	\$ 25.38	-3.0%		\$ 27.55	\$ (2.17)
Cost of Sales						
Food Cost Per Cover	\$ 4.18	\$ 4.45	6.3%		\$ 4.02	\$ 0.43
Liquor Cost of Sales	12.1%	12.1%	0.0%		11.0%	1.1%
Beer Cost of Sales	23.1%	24.0%	3.9%		22.0%	2.0%
Wine Cost of Sales	35.2%	34.0%	-3.4%		29.0%	5.0%
Turnover						
Food Inventory	5.95	5.20	-12.6%		6.50	(1.30)
Liquor Inventory	0.49	0.47	-4.1%		0.50	(0.03)
Beer Inventory	1.05	0.80	-23.8%		1.30	(0.50)
Wine Inventory	1.43	1.25	-12.5%		1.50	(0.25)
Productivity						
Management Man Hours	8760	8784	0.3%		8784	0
Service Labor Hours Per Cover	0.35	0.39	11.4%		0.31	0.08
Production Labor Hours Per Cover	0.18	0.21	16.7%		0.18	0.03
PTEB as a % of Payroll	51.5%	51.5%	0.0%		51.0%	0.5%
Direct Expenses Per Cover	\$ 2.65	\$ 2.67	0.6%		2.58	\$ 0.09
Gross Profit Margin	10.5%	-0.4%	-104.1%		12.2%	-12.6%
Days Credit Sales Outstanding	2.03	3.04	50.0%		1.85	1.19

Figure 2

Labor Cost Analysis

Unit 705								
Labor Cost Analysis								
For the Years Ending December 31								
	2010	%	2011	%	2012	%	2013	%
Revenue								
Lunch								
Covers	80,300		82,709		83,536		81,030	
Food Revenue	\$ 922,647	17.8%	\$ 981,756	18.2%	\$ 985,726	18.4%	\$ 939,948	18.4%
Liquor Revenue	\$ 46,132	0.9%	\$ 49,088	0.9%	\$ 49,286	0.9%	\$ 46,997	0.9%
Beer Revenue	\$ 64,585	1.2%	\$ 68,723	1.3%	\$ 69,001	1.3%	\$ 65,796	1.3%
Wine Revenue	\$ 36,906	0.7%	\$ 39,270	0.7%	\$ 39,429	0.7%	\$ 37,598	0.7%
Total Lunch Revenue	\$ 1,070,271	20.7%	\$ 1,138,837	21.2%	\$ 1,143,442	21.3%	\$ 1,090,340	21.4%
Dinner								
Covers	153,300		159,432		161,026		157,806	
Food Revenue	\$ 2,836,050	54.7%	\$ 3,029,208	56.3%	\$ 3,075,603	57.4%	\$ 2,966,749	58.2%
Liquor Revenue	\$ 283,605	5.5%	\$ 302,921	5.6%	\$ 307,560	5.7%	\$ 296,675	5.8%
Beer Revenue	\$ 425,408	8.2%	\$ 454,381	8.4%	\$ 461,340	8.6%	\$ 445,012	8.7%
Wine Revenue	\$ 567,210	10.9%	\$ 454,381	8.4%	\$ 369,072	6.9%	\$ 296,675	5.8%
Total Dinner Revenue	\$ 4,112,273	79.3%	\$ 4,240,891	78.8%	\$ 4,213,576	78.7%	\$ 4,005,111	78.6%
Total Revenue	\$ 5,182,543	100.0%	\$ 5,379,728	100.0%	\$ 5,357,018	100.0%	\$ 5,095,451	100.0%
Cost of Sales								
Food	\$ 939,674	25.0%	\$ 994,719	24.8%	\$ 1,023,455	25.2%	\$ 1,062,622	27.2%
Liquor	\$ 39,568	12.0%	\$ 41,537	11.8%	\$ 43,178	12.1%	\$ 41,584	12.1%
Beer	\$ 112,698	23.0%	\$ 118,745	22.7%	\$ 122,509	23.1%	\$ 122,594	24.0%
Wine	\$ 211,441	35.0%	\$ 175,740	35.6%	\$ 143,792	35.2%	\$ 113,653	34.0%
Total	\$ 1,303,382	25.1%	\$ 1,330,741	24.7%	\$ 1,332,935	24.9%	\$ 1,340,453	26.3%
Man Hours (Man Hours Per Cover)								
Management	8,760	0.038	8,760	0.036	8,760	0.036	8,784	0.037
Service	81,760	0.350	87,171	0.360	85,597	0.350	93,146	0.390
Production	42,048	0.180	46,007	0.190	44,021	0.180	50,156	0.210
Total Man Hours	132,568	0.568	141,938	0.586	138,378	0.566	152,085	0.637
Payroll and Benefit Expense								
Management	\$ 201,480	3.9%	\$ 208,532	3.9%	\$ 215,830	4.0%	\$ 222,737	4.4%
Service	\$ 776,720	15.0%	\$ 841,198	15.6%	\$ 834,569	15.6%	\$ 922,145	16.0%
Production	\$ 735,840	14.2%	\$ 818,921	15.2%	\$ 805,589	15.0%	\$ 927,877	17.0%
Payroll Taxes and Employee Benefits	\$ 874,160	16.9%	\$ 962,355	17.9%	\$ 955,834	17.8%	\$ 1,067,471	20.9%
Total Payroll and Benefit Expense	\$ 2,588,200	49.9%	\$ 2,831,006	52.6%	\$ 2,811,822	52.5%	\$ 3,140,230	61.6%
Cost Per Hour								
Management	\$ 23.00		\$ 23.81	3.5%	\$ 24.64	3.5%	\$ 25.36	2.9%
Service	\$ 9.50		\$ 9.65	1.6%	\$ 9.75	1.0%	\$ 9.90	1.5%
Production	\$ 17.50		\$ 17.80	1.7%	\$ 18.30	2.8%	\$ 18.50	1.1%
Payroll Taxes and Employee Benefits	\$ 6.59		\$ 6.78	2.8%	\$ 6.91	1.9%	\$ 7.02	1.6%
Total Payroll and Benefit Expense	\$ 19.52		\$ 19.95	2.2%	\$ 20.32	1.9%	\$ 20.65	1.6%
								189159
								134131
								323290

Figure 3

Comparative Income Statement Cost Analysis

Unit 705								
Comparative Income Statement								
For the Years Ending December 31								
	2010	%	2011	%	2012	%	2013	%
Revenue								
Lunch								
Covers	80,300		82,709		83,536		81,030	
Food Revenue	\$ 922,647	17.8%	\$ 981,756	18.2%	\$ 985,726	18.4%	\$ 939,948	18.4%
Liquor Revenue	\$ 46,132	0.9%	\$ 49,088	0.9%	\$ 49,286	0.9%	\$ 46,997	0.9%
Beer Revenue	\$ 64,585	1.2%	\$ 68,723	1.3%	\$ 69,001	1.3%	\$ 65,796	1.3%
Wine Revenue	\$ 36,906	0.7%	\$ 39,270	0.7%	\$ 39,429	0.7%	\$ 37,598	0.7%
Total Lunch Revenue	\$ 1,070,271	20.7%	\$ 1,138,837	21.2%	\$ 1,143,442	21.3%	\$ 1,090,340	21.4%
Dinner								
Covers	153,300		159,432		161,026		157,806	
Food Revenue	\$ 2,836,050	54.7%	\$ 3,029,208	56.3%	\$ 3,075,603	57.4%	\$ 2,966,749	58.2%
Liquor Revenue	\$ 283,605	5.5%	\$ 302,921	5.6%	\$ 307,560	5.7%	\$ 296,675	5.8%
Beer Revenue	\$ 425,408	8.2%	\$ 454,381	8.4%	\$ 461,340	8.6%	\$ 445,012	8.7%
Wine Revenue	\$ 567,210	10.9%	\$ 454,381	8.4%	\$ 369,072	6.9%	\$ 296,675	5.8%
Total Dinner Revenue	\$ 4,112,273	79.3%	\$ 4,240,891	78.8%	\$ 4,213,576	78.7%	\$ 4,005,111	78.6%
Total Revenue	\$ 5,182,543	100.0%	\$ 5,379,728	100.0%	\$ 5,357,018	100.0%	\$ 5,095,451	100.0%
Cost of Sales								
Food	\$ 939,674	25.0%	\$ 994,719	24.8%	\$ 1,023,455	25.2%	\$ 1,062,622	27.2%
Liquor	\$ 39,568	12.0%	\$ 41,537	11.8%	\$ 43,178	12.1%	\$ 41,584	12.1%
Beer	\$ 112,698	23.0%	\$ 118,745	22.7%	\$ 122,509	23.1%	\$ 122,594	24.0%
Wine	\$ 211,441	35.0%	\$ 175,740	35.6%	\$ 143,792	35.2%	\$ 113,653	34.0%
Total	\$ 1,303,382	25.1%	\$ 1,330,741	24.7%	\$ 1,332,935	24.9%	\$ 1,340,453	26.3%
Man Hours/ Man Hours Per Cover (MHPC)								
		MHPC		MHPC		MHPC		MHPC
Management	8,760	0.038	8,760	0.036	8,760	0.036	8,784	0.037
Service	81,760	0.350	87,171	0.360	85,597	0.350	93,146	0.390
Production	42,048	0.180	46,007	0.190	44,021	0.180	50,156	0.210
Total Man Hours	132,568	0.568	141,938	0.586	138,378	0.566	152,085	0.637
Payroll and Benefit Expense								
Management	\$ 201,480	3.9%	\$ 208,532	3.9%	\$ 215,830	4.0%	\$ 222,737	4.4%
Service	\$ 776,720	15.0%	\$ 841,198	15.6%	\$ 834,569	15.6%	\$ 922,145	16.0%
Production	\$ 735,840	14.2%	\$ 818,921	15.2%	\$ 805,589	15.0%	\$ 927,877	17.0%
Payroll Taxes and Employee Benefits	\$ 874,160	16.9%	\$ 962,355	17.9%	\$ 955,834	17.8%	\$ 1,067,471	20.9%
Total Payroll and Benefit Expense	\$ 2,588,200	49.9%	\$ 2,831,006	52.6%	\$ 2,811,822	52.5%	\$ 3,140,230	61.6%
Direct Expenses								
China	\$ 51,825	1.0%	\$ 59,177	1.1%	\$ 53,570	1.0%	\$ 61,145	1.2%
Glass	\$ 77,738	1.5%	\$ 75,316	1.4%	\$ 80,355	1.5%	\$ 81,527	1.6%
Silver	\$ 41,460	0.8%	\$ 40,348	0.8%	\$ 42,856	0.8%	\$ 45,859	0.9%
Cleaning Supplies	\$ 51,825	1.0%	\$ 48,418	0.9%	\$ 53,570	1.0%	\$ 50,955	1.0%
Paper Supplies	\$ 46,643	0.9%	\$ 53,797	1.0%	\$ 48,213	0.9%	\$ 45,859	0.9%
Miscellaneous Expense	\$ 62,191	1.2%	\$ 69,936	1.3%	\$ 64,284	1.2%	\$ 61,145	1.2%
Service Contracts	\$ 46,643	0.9%	\$ 43,038	0.8%	\$ 58,927	1.1%	\$ 76,432	1.5%
Landscaping	\$ 67,373	1.3%	\$ 64,557	1.2%	\$ 69,641	1.3%	\$ 66,241	1.3%
Energy Expense	\$ 77,738	1.5%	\$ 86,076	1.6%	\$ 80,355	1.5%	\$ 76,432	1.5%
Uniform Expense	\$ 93,286	1.8%	\$ 91,455	1.7%	\$ 96,426	1.8%	\$ 91,718	1.8%
Total Direct Expense	\$ 616,723	11.9%	\$ 632,118	11.8%	\$ 648,199	12.1%	\$ 657,313	12.9%
Total Expenses	\$ 4,508,305	87.0%	\$ 4,793,864	89.1%	\$ 4,792,956	89.5%	\$ 5,137,996	100.8%
Gross Operating Profit	\$ 674,238	13.0%	\$ 585,864	10.9%	\$ 564,062	10.5%	\$ (42,545)	-0.8%

Figure 4

Inventory Analysis

Unit 705				
Inventory Analysis				
For the Years Ending December 31				
	2010	2011	2012	2013
Food				
Revenue	\$ 3,758,697	\$ 4,010,964	\$ 4,061,329	\$ 3,906,697
Average Monthly Revenue	\$ 313,225	\$ 334,247	\$ 338,444	\$ 325,558
Food Inventory	\$ 52,204	\$ 57,629	\$ 56,881	\$ 62,607
Turnover	6.00	5.80	5.95	5.20
Liquor				
Revenue	\$ 329,737	\$ 352,009	\$ 356,847	\$ 343,672
Average Monthly Revenue	\$ 27,478	\$ 29,334	\$ 29,737	\$ 28,639
Liquor Inventory	\$ 54,956	\$ 57,518	\$ 60,688	\$ 60,935
Turnover	0.50	0.51	0.49	0.47
Beer				
Revenue	\$ 489,993	\$ 523,104	\$ 530,341	\$ 510,809
Average Monthly Revenue	\$ 40,833	\$ 43,592	\$ 44,195	\$ 42,567
Beer Inventory	\$ 37,121	\$ 37,906	\$ 42,091	\$ 53,209
Turnover	1.10	1.15	1.05	0.80
Wine				
Revenue	\$ 604,116	\$ 493,651	\$ 408,501	\$ 334,273
Average Monthly Revenue	\$ 50,343	\$ 41,138	\$ 34,042	\$ 27,856
Wine Inventory	\$ 25,171	\$ 24,683	\$ 23,829	\$ 22,285
Turnover	2.00	1.67	1.43	1.25

Figure 5

Guest Satisfaction Information

Unit 705						
Guest Satisfaction Index						
For the Years Ending December 31						
	2010	2011	2012	2013	2013 System Benchmark	
I was greeted warmly upon arrival	9.8	9.6	9.4	8.5	9.8	
My server introduced him/herself	9.9	9.7	9.5	8.6	9.9	
My server was knowledgeable about the menu	9.2	9.0	8.8	9.1	9.2	
The item(s) I wanted were all available	9.5	9.3	9.1	7.2	9.5	
The restaurant was clean	9.8	9.6	9.4	9.5	9.8	
The lighting level was conducive to dining	9.7	9.5	9.3	9.5	9.7	
The sound level was conducive to conversation	9.6	9.4	9.2	9.6	9.6	
The menu was interesting and visually appealing	9.7	9.5	9.3	9.6	9.7	
My meal looked like it did on the menu	9.8	9.6	9.4	6.2	9.8	
The food was served at an appropriate time	9.7	9.5	9.3	7.0	9.7	
The food was served at a good pace	9.7	9.5	9.3	6.5	9.7	
My beverage requests were filled accurately	9.2	9.0	8.8	8.0	9.2	
My beverage requests were filled quickly	9.1	8.9	8.7	7.0	9.1	
The manager introduced himself/herself	9.0	8.8	8.6	5.1	9.0	
We were thanked upon exit, and asked to return	9.5	9.3	9.1	4.0	9.5	
Value for price paid	9.5	9.3	9.1	8.2	9.5	
Value compared to competition	9.0	8.8	8.6	6.5	9.0	
I plan to return	9.4	9.2	9.0	8.0	9.4	
I would recommend this restaurant to my friends	9.8	9.6	9.4	8.0	9.8	

Guest Satisfaction is measured on a scale of 1 (poor) to 10 (excellent). Guests are encouraged to submit their satisfaction scoring either on a written card (available in the restaurant unit) or via email (information provided on the guest receipt).

Figure 6

Comparative Balance Sheet

Unit 705				
Comparative Balance Sheet				
For the Years Ending December 31				
	2010	2011	2012	2013
Current Assets				
House Banks	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Operating Account	\$ 83,127	\$ 80,164	\$ 85,850	\$ 63,250
Payroll Account	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Accounts Receivable	\$ 28,792	\$ 29,887	\$ 29,761	\$ 42,462
Prepaid Items	\$ 27,500	\$ 28,200	\$ 27,800	\$ 27,250
Inventories (Schedule I)	\$ 169,453	\$ 177,735	\$ 183,489	\$ 199,036
Total Current Assets	\$ 323,871	\$ 330,987	\$ 341,901	\$ 346,998
Equipment	\$ 12,875,000	\$ 12,875,000	\$ 12,875,000	\$ 12,875,000
Leasehold Improvements	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000	\$ 8,500,000
Accumulated Depreciation	\$ (1,439,237)	\$ (1,449,982)	\$ (1,470,570)	\$ (1,507,766)
Total Long Term Assets	\$ 19,935,763	\$ 19,925,018	\$ 19,904,430	\$ 19,867,234
Total Assets	\$ 20,259,634	\$ 20,256,005	\$ 20,246,330	\$ 20,214,233
Current Liabilities				
Trade Accounts Payable	\$ 51,394	\$ 52,677	\$ 54,017	\$ 54,776
Employee Benefits Payable	\$ 38,823	\$ 42,465	\$ 42,177	\$ 47,103
Accrued Liabilities	\$ 85,706	\$ 90,385	\$ 91,384	\$ 96,786
Current Portion of Long Term Debt	\$ 10,500	\$ 10,500	\$ 10,500	\$ 10,500
Total Current Liabilities	\$ 186,422	\$ 196,026	\$ 198,078	\$ 209,165
Long Term Portion of Debt	\$ 39,500	\$ 29,000	\$ 18,500	\$ 8,000
Total Liabilities	\$ 225,922	\$ 225,026	\$ 216,578	\$ 217,165
Equity				
Initial Unit Capitalization	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000
Retained Earnings	\$ 674,238	\$ 619,576	\$ 595,041	\$ (12,793)
Earnings Distributed to Parent	\$ (640,526)	\$ (588,597)	\$ (565,289)	\$ 12,153
Total Equity	\$ 20,033,712	\$ 20,030,979	\$ 20,029,752	\$ 19,999,360
Total Liabilities and Equity	\$ 20,259,634	\$ 20,256,005	\$ 20,246,330	\$ 20,216,525

Figure 7

Market Share Information

Unit 705 Market Share Report For the Years Ending December 31				
	2010	2011	2012	2013
Unit 705	32%	31%	28%	20%
Systemwide Upper Quartile	32%	31%	32%	32%

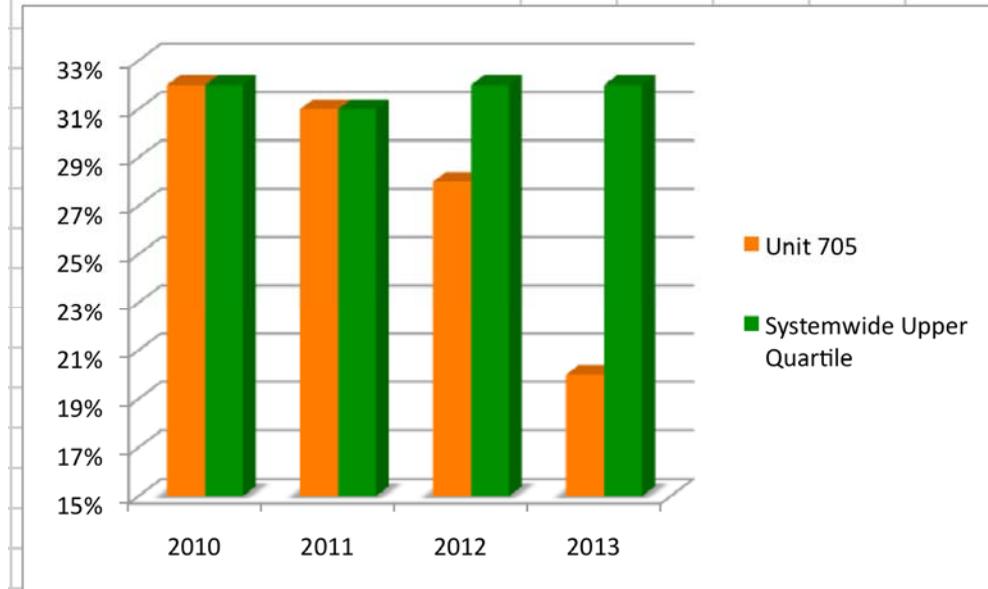


Figure 8

Calculation Reference for Students

Calculation Reference for Students		
		Direct Expenses
Benchmark Cost Per Cover (CPC)		
Less: Unit 705 CPC		
Variance	A	0
2013 Annual Covers (Lunch + Dinner)	B	
Annual Expected Cost Savings	A x B	\$ -
		Food Cost (Per Cover)
Benchmark Food Cost Per Cover (CPC)		
Less: Unit 705 CPC		
Variance	A	0
2013 Annual Covers (Lunch + Dinner)	B	
Annual Expected Cost Savings	A x B	\$ -
		Productivity
Benchmark Man Hours Per Cover (MHPC)		
Unit 705 MHPC		
Variance	A	0
2013 Annual Covers (Lunch + Dinner)	B	
Annual Man hours Saved	C(A x B)	-
Payroll per hour	D	
Payroll Taxes and Employee Benefits (PTEB) per hour	E	
Total Payroll Cost Per Hour	F (E+E)	\$ -
Annual Expected Savings	C X F	\$ -
		Cost of Sales
Benchmark Cost of Sales %		
Unit 705 Cost of Sales %		
Variance	A	0.0%
2013 Category Revenue (same category as the cost%)	B	
Annual Expected Savings	A X B	\$ -

Figure 9

Example of Student Response

Note: You may not use this example in your paper.

Reduce China Expense to 2012 CPC:

In 2013, the Cost Per Cover for China was 0.26. When the China Expense is reduced to the 2012 Cost Per Cover of .22, the resulting savings would be \$8,830 (238,836 covers X (.04) per cover.

We recommend the following actions:

- Reduce the inventory of China to the approved policy level and insure that the inventory which is not in use is properly secured to minimize theft.
- Confirm all purchases of China are made through nationally approved vendor contracts. This will minimize the expense.
- Determine the unit's most efficient economic order quantity, and order in sufficient time to avoid any rush delivery expense.
- Retrain all servers, buspersons and dishwashers in the proper handling of china to reduce breakage.
- Reorganize all storage areas to insure china is properly stored.

Additional Reading

Bowen, J. T., & Chen, S. L. (2001). The relationship between customer loyalty and customer satisfaction. *International Journal of Contemporary Hospitality Management*, 13(5), 213-217. doi: 10.1108/09596110110395893.

Gupta, S., McLaughlin, E., & Gomez, M. (2007). Guest satisfaction and restaurant performance. *Cornell Hotel and Restaurant Administration Quarterly*, 48(3), 284-298.

Heskett, J. L., Sasser, W. E., & Schlesinger, L. A. (1997). The service profit chain: how leading companies link profit and growth to loyalty, satisfaction, and value. Simon and Schuster.

Johnson, B. C., & Chambers, M. (2000). Foodservice benchmarking: Practices, attitudes, and beliefs of foodservice directors. *Journal of the American Dietetic Association*, 100(2), 175-180. doi: 10.1016/S0002-8223(00)00056-0.

Miller, Mark (2011). Coca-Cola expands futuristic Freestyle Machines. Brandchannel.com. Retrieved from <http://www.brandchannel.com/home/post/2011/08/08/Coca-Cola-Freestyle-Expands.aspx>.

News and Research (2014). National Restaurant Association. Retrieved from <http://www.restaurant.org/News-Research/Research/RPI>.

North Dakota Occupational Labor Statistics (2014), Bureau of Labor Statistics, U.S. Department of Labor. Retrieved from http://www.bls.gov/OES/Current/oes_ND.htm#35-0000.

Reynolds, D. (2004). An exploratory investigation of multiunit restaurant productivity assessment using data envelopment analysis. *Journal of Travel & Tourism Marketing*, 16(2-3), 19-26. doi: 10.1300/J073v16n02_02.

Yasin, M. M., & Zimmerer, T. W. (1995). The role of benchmarking in achieving continuous service quality. *International Journal of Contemporary Hospitality Management*, 7(4), 27-32. Doi: 10.1108/09596119510083238.