

teaching note

Food Waste and Financial Performance: Should Olive Garden drop unlimited breadsticks and salad from its menu?

Summary

Olive Garden restaurants, a signature brand of Darden Restaurants, Inc. (NYSE: DRI), is facing a debate from one of its major shareholders, Starboard Value LP, related to its unlimited breadsticks and salad being offered to its customers. The primary issues relate to Olive Garden's food waste, higher food cost percentages, declining same-store sales, and reduced profitability. Starboard believes that "servers bring an excess of breadsticks significantly outnumbering the number of guests. Most customers don't eat the breadsticks and salad, creating an enormous amount of waste, and having fewer server visits takes away from the customer experience." (Transforming Darden Restaurants, Starboard Value LP. Investor Presentation, 2014). Starboard recommends a 100-day operational turnaround and substantial cost savings opportunities to Olive Garden. Their ultimate objectives include; (a) increasing guest counts (traffic), (b) reducing unnecessary food waste and corresponding costs, (c) generating more cash flow, (d) increasing same-store-sales, (e) improving profitability margins, and (f) revising corporate social responsibility. The discussions generated in this case study provide a more in-depth understanding of these challenging issues, especially those related to the offering of unlimited breadsticks and salad.

Target Audience

The content of this case study is geared toward undergraduate students in restaurant management, cost control, financial management, marketing, and culinary arts courses.

Analysis of Teaching Objectives and Learning Outcomes

Instructors obtain an excellent and unique opportunity to engage their students in an active learning environment to discuss recent investor concerns about the amount of food waste resulting from Olive Garden's unlimited breadsticks and salad offer and to understand financial impact of food waste. The discussion topics regarding the food waste and financial performance will challenge students' critical thinking and enhance their reasoning skills with the integration of various business disciplines, such as restaurant management and cost controls.

Given the considerable amount of information and background on both Olive Garden's new major shareholder (Starboard) and the association between food waste and financial performance, instructors might assign this case study as a group exercise so students can discuss the financial ramifications of these relationships. Upon completion of this case study, students should be able to:

- Identify the main reasons for food waste in restaurants.
- Discuss the tactics of food waste reduction in restaurants.

- Analyze how the reduction in food waste can influence a restaurant company's food costs, same-store sales and profitability.
- Evaluate the pros and cons of modifying the unlimited breadsticks offer in terms of the market reaction and sentiment, customer retention and traffic, and consumer preference.
- Discuss the environmental, ecological, and social aspects of participating in food waste reduction, recycling, and composting programs in terms of corporate social responsibility and food purchasing yield.

Discussion Topics and Questions

Food Waste Reduction, Cost of Food Sold, Profit Yields, and Financial Performance:

- What is the financial impact of wasted breadsticks and salad to Olive Garden?
- What are the key alternative solutions to prevent food waste from the unlimited breadstick and salad for Olive Garden Restaurants?
- What strategies may be implemented to reduce the amount of breadsticks and salad offered without negatively impacting the traffic, guest loyalty, and hence, earnings? Explain.
- What other managerial actions should be taken by the Olive Garden executives to decrease food costs while maintaining the loyal customer base?
- How should Olive Garden respond to the customer concerns and/or complaints if the restaurant restricts the unlimited breadstick and salad offer?
- What do the other restaurant operators and chains take away from the essentials of this case study and what they should do to tackle the food waste issue?

Environmental, Social, Sustainability Issues:

- How does the modification of the unlimited breadsticks and salad delivery impact food waste reduction and support financial sustainability plans, such as purchasing efficiency and inventory management?
- What kind of waste management practices should Olive Garden executives implement to be more responsible to the environment and communities?
- Can additional revenue be created by environmental practices, such as participating in food donation programs and/or recycling and composting programs?
- What will be the effects of environmental and social responsibility on Olive Garden's marketing practices, brand reputation/

image and competitive position?

Class Instruction and Teaching Methods

The content and the information provided in this case study allow educators to implement several different teaching techniques, such as small group discussions. Regardless, each area of discussion require about an hour and ten minutes of instruction and teaching time to introduce, understand, explore, discuss, and check for understanding. Although this class plan is designed based on the minimal time allowance of 20 minutes, instructors can expand and/or allocate more time on the class instruction phases mentioned in detail below.

Prior to Class:

Students will be asked to read and understand the case study including the power point slides and indicated additional reading materials. After reading the documents provided, students will be asked to be ready to discuss the following points:

- Describe the main topics of the case study.
- Provide additional evidence about Olive Garden's unlimited breadsticks and salad.
- Further explain the recent criticism by Starboard Value.

Phase I (Introduction and Open Class Discussion of the Case Study – approximately 20 minutes):

- Start the class with the introduction and the purpose of the case study and then deliver the learning outcomes of the case study (10 minutes).
- Ask students about their perceptions of the case study and encourage them to share their personal opinions about potential financial outcomes of increasing food costs and food waste (10 minutes).

Phase II (Discussion on the Recent Debate about Olive Garden's Increasing Amounts of Food Cost and Waste – approximately 40 minutes):

- Divide students into small groups (maximum 4 students per group) and ask them to prepare answers for the following specific topics outlined below. Give each discussion group about 10 minutes to write up the answers for the discussion points and have a general in-class discussion/debate about 10 minutes covering all the discussion areas (20 minutes) below.
 1. The relationships between food costs and financial performance.
 2. Explain why and how unlimited breadstick and salad leads to higher food costs.
 3. Discuss the financial consequences of Olive Garden's rising food cost percentages.
 4. Provide recommendations to decreasing the amounts of food costs and waste while maintain-

ing the same food quality and customer counts.

- Let each discussion group present their answers for the above discussion points (10 minutes).
- Briefly lecture on the impact of food costs on the profit margins (5 minutes).
- Ask the students what they have learned from the in-class discussions of the case study (5 minutes).

Phase III (Check for Understanding – approximately 10 minutes):

- Summarize and outline the key points of the group discussions (5 minutes)
- Ask students whether their initial thoughts and perspectives have changed after hearing the opinions from the other class members during the large in-class discussions. (5 minutes)

Assessment

Students will be given an assignment to write a report about their perspectives of this case study. Students' analysis report will consist of their ideas about the current issue presented in the case study. In their analysis report, they will structure and defend their ideas and provide their opinions and critical reasoning about the current situation of Olive Garden restaurants. Lastly, students will provide 3 to 4 additional references about the case study topic beyond what has been supplied by the instructor. If needed, additional assessment (i.e., future financial projections of Olive Garden operations) might be given along with the related financial data.

Additional Reading Materials Assigned

- Betz, A., Buchli, J., Gobel, C., and Muller, C. (2015). Food waste in the Swiss food service industry – magnitude and potential for reduction. *Waste Management*, 35, 218-226.
- Charlebois, S. (n.d.). Supply-based food waste in the food service industry: The case of delish restaurants. Retrieved from: <http://www.ifama.org/files/conf/papers/959.pdf>
- Hollins, O. (2013). Overview of waste in the UK hospitality and food service sector. WRAP Project: HFS001-006. Retrieved from <http://www.wrap.org.uk/sites/files/wrap/Overview%20of%20Waste%20in%20the%20UK%20Hospitality%20and%20Food%20Service%20Sector%20FINAL.pdf>
- Lipinski, B., Hanson, C., Lomax, J., Kitinoja, L., Waite, R., and Searchinger, T. (2013). Reducing food loss and waste. World Resources Institute Working Paper, June.
- Parfitt, J., Barthel, M., and Macnaughton, S. (2010). Food waste within food supply chains: Quantification and potential for change to 2050. *Philosophical Transactions of the Royal Society B: Biological Sciences*, 365(1554), 3065-3081.