Principles of management

Outback steakhouse case

1. Provide an executive summary to your paper that indicates your analysis of the major issues presented in the case concerning Outback and the highlights of yoru recommendations for the continuing success of the company ( see question 4)
2. Conduct an analysis of outback’s current situation using the management process ( planning, organizing, leading and controlling) as your framework. Integrate any course material you fee lrelevant in answering the question. You should find many of the handouts from class discussion ( strategic management equation, essence of the management challenge, job design alternatives, management power equation etc) very helpful in catalyzing your thinking
3. What has outback done to successfully Attract, Develop and Retain the best people ( the goals of human resource management) it is interesting to note that at the time of writing the case Outback still did not have a human resourcing department at their Corp HQ
4. In your opinion what are the top 3 – 5 challenges outback will face as they continue to grow and strive to remain a success story and WHAT actions do you recommend for meeting these challenges? Be as creative and specific as possible

Length no more than 5 pages single spaced

Material :

Outback Steakhouse

Outback Steakhouse: Fueling the Fast Growth Company

Since the company’s initial public offering in June of 1991, Wall Street observers had continually predicted a downturn in the price of Outback Steakhouse’s stock. Indeed, most analysts viewed Outback as just another fad in an intensely competitive industry where there are plenty of imitators. They continued to caution that Outback was in a saturated market and that the company could not continue growing at its existing pace. The December 1994 issue of Inc. magazine declared Outback’s three founders as winners of the coveted Entrepreneur of the Year award. The company was profiled in 1994 and early 1995 by the business press as one of the biggest success stories in corporate America in recent years.1

At 5:00 p.m. on a Saturday in early 1995 in Brandon, a suburb outside Tampa, the lines had already begun to form in a strip mall outside Outback Steakhouse. Customers waited anywhere from half an hour to almost two hours for a table.

The firm’s founders, Chris Sullivan, Bob Basham, and Tim Gannon, organized Outback in August 1987 with the expectation of building five restaurants and spending increased leisure time on the golf course and with their families. In 1988 the company had sales of $2.7 million from its two restaurants. By year-end 1994 the chain exceeded all of the founders’ expectations, with over 200 restaurants and $549 million in systemwide sales (see Exhibits 1 and 2 for financial data) and had formed a joint venture partnership with Texas-based Carrabbas Italian Grill to enter the lucrative Italian restaurant segment, currently dominated by General Mill’s Olive Garden. A 1994 national survey of the country’s largest restaurant chains ranked Outback first in growth (52.9%), second by sales per unit ($3.3 million), sixth by market share (5.9%), and tenth by number of units (205), all of which was accomplished in less than six years (see Exhibit 3).2

The founders expected that Outback could grow into a 550–600-unit chain in the continental United States. During 1995 alone, the company expected to add 65 to 70 new restaurants, maintain overall sales growth comparable to 1994, and continue to increase its same-store sales. In spite of the company’s past success and future plans, however, analysts and other industry observers questioned how long Outback could continue its astounding growth, whether the company could maintain its strong momentum while pursuing multiple major strategic thrusts to propel its growth, and whether and how the culture of the company could be maintained. Skepticism about Outback’s continued growth was clearly evident in the way Wall Street analysts viewed the company. By the end of 1994, Outback’s stock was one of the most widely held stocks on the short sellers’ list.3 Adjusted for stock splits, Outback’s share price rose from $3.50 to almost $30 over a three-year period. Exhibits 4 and 5 provide information on Outback’s stock performance as well as samples of analysts’ perspectives on Outback’s continued growth during 1994.

The French Restaurant Legacy

The French coined the term restaurant, meaning “a food that restores,” and were the first to create a place that could be defined as a restaurant by modern standards.4 Before the French Revolution most culinary experiences were the exclusive domain of the nobility. The French

Revolution dispersed the nobility and their chefs. The chefs, denied the patronage of the nobles, scattered throughout Europe, taking the restaurant concept with them.

In contrast, American restaurants grew up in response to the need to serve the burgeoning 19th-century U.S. workforce. The rapid growth of U.S. cities, fueled by the influx of European immigrants, provided the initial impetus for the American restaurant industry. Initially, restaurants were single family-owned operations and consisted of two broad categories.5 The first category, fine dining, had facilities that were affordable only to the wealthy and were located primarily in major cities. The second category catered primarily to industrial workers. This latter category included concepts such as lunch wagons and soda fountains, which later evolved into coffee shops and luncheonettes. These grew rapidly in response to the continuous expansion of urban areas. The American obsession with efficiency propelled yet another restaurant concept, the self-service restaurant, to become a central theme for 20th-century American restaurants.

Retail and theater chains emerged with the new century. The first large U.S. restaurant chain organization was the brainchild of Frederick Henry Harvey, an English immigrant.6 After his Harvey House opened in 1876 in Topeka, Kansas, restaurant chains too quickly became part of the American scene.

The restaurant industry’s sales are predicted to rise to $399.0 billion, a 5.2 per cent increase over 2000. 7 The industry’s 100 largest chains accounted for 40 percent of total industry sales. U.S. restaurants in the latter part of the twentieth century could broadly be classified into three segments—fast-food, casual dining, and fine dining. However, within these three broad categories were highly fragmented subsegment markets. The fast-food segment was primarily catered to by major chains such as McDonald’s, Wendy’s, Burger King, Hardee’s, and Kentucky Fried Chicken. Casual dining catered to the cost conscious and typically priced menu entrees between fastfood and fine dining restaurants. Fine dining establishments catered to affluent customers and were located primarily in major metropolitan areas. Fine dining establishments were mostly single-unit businesses. In the early 1990s 75 percent of all casual dining establishments were still mom-and-pop operations.8 The industry was characterized by high failure rates. Approximately 75 percent of all establishments failed within the first year; 90 percent within five years. Failure in the restaurant industry was attributed to a plethora of factors, including undercapitalization, poor location, poor food quality, underestimation of the effort needed to be successful, the effect of changing demographics segments, and government regulations.9

Restaurant operations are highly labor-intensive businesses. However, aspiring restaurant owners often seriously underestimated their capitalization requirements, that is, the funds needed for leasehold improvements and equipment. Indeed, new restaurants are often seriously undercapitalized. The owners might also fail to plan for other startup funds such as the first year’s working capital, preopening expenses, advertising, and inventory costs.

Location choice was another common error. A restaurant location had to attract sufficient traffic to sustain operations. The demographics required for appropriate fine dining restaurant sites were different from those required for casual dining establishments, which differed again from fast-food establishments such as McDonald’s. The availability of suitable locations especially in major cities had become an important factor in the success or failure of restaurants.

Aspiring restaurant owners also often underestimated the effort required to make a restaurant successful. Running a restaurant was hard work and could easily involve 80 to 100 hours of work each week. Changing demographics affected not only location choices but also the theme and type of restaurant. What had once been easily definable segments had fundamentally changed. It had become increasingly difficult to clearly define targetable segments. American Demographics magazine referred to the current situation as “particle markets.”10 Examples of such particle markets included empty nesters, stepfamilies, the baby boomlet, immigrants, the disabled, savers, the affluent, the elderly, and others. The restaurant industry was also one of the country’s most regulated industries. A myriad of regulations on such issues as hygiene, fire safety, and the consumption of alcoholic beverages governed daily operations.

Still another requirement for a successful restaurant was the maintenance of consistent food quality. Maintaining a level of consistent food quality was challenging. Any variability in food quality was typically viewed as deficient.

 Founding Outback Steakhouse - From Down Under to Where?

In March 1987 three friends—Chris Sullivan, Bob Basham, and Tim Gannon—opened their first two Outback restaurants in Tampa, Florida. Each of the three had started early in their careers in the restaurant industry—Chris as a busboy, Bob as a dishwasher, and Tim as a chef’s assistant. Between them they had more than sixty years of restaurant experience, most in the casual dining segment. The three met when they went to work for Steak & Ale, a Pillsbury subsidiary, shortly after they completed college in the early 1970s. Chris and Bob went to executive roles in the Bennigan’s restaurant group, part of the Steak & Ale group. The two men met their mentor and role model in casual dining legend Norman Brinker. Brinker had headed Pillsbury’s restaurant subsidiary. When Brinker left Pillsbury to form Brinker International, Chris and Bob followed him. Among Brinker International’s casual dining chains was Chili’s. Brinker helped the two men finance a chain of 17 Chili’s restaurants in Florida and Georgia. Chris and Bob described their contribution as “sweat equity.”11 Brinker was considered a leading pioneer in the development of the causal dining industry.12 Brinker International, the restaurant holding company that Brinker created, was widely considered an industry barometer for the casual dining segment.

Brinker International, the parent company, acquired Chris and Bob’s interest in the Chili’s franchise for $3 million

in Brinker stock. With about $1.5 million each, Chris and Bob turned their attention to a long-standing dream—their own entrepreneurial venture. They considered several options, finally settling on the idea of a startup venture consisting of a small chain of casual dining restaurants. Each of the two men brought special skills to the table—Chris in his overall strategic sense and Bob in his strong skills in operations and real estate.

In early fall 1987 the two men asked Tim Gannon to join Outback as its chief chef. Tim had left Steak & Ale in 1978 to play a significant entrepreneurial role in several restaurant chains and single-establishment restaurants, primarily in the New Orleans area. His last venture was a restaurant with Pete Fountain at the New Orlean’s World’s Fair. The venture at the World’s Fair had experienced early success and then suddenly encountered severe financial difficulties, leaving Tim with virtually no financial resources. In fact, when Gannon accepted Chris and Bob’s invitation to join them, he had to sell his one remaining prized possession, a saddle, in order to buy gas money to travel from New Orleans to Tampa.

Tim brought with him recipes drawn from 25 years of experience. His first tutelage had been under a French chef in Aspen, Colorado. Concerning his initial teacher, Tim said:

I was an Art History major (who) found his way to Colorado to Aspen to ski. My first job was as a cook. That job became exciting because the man I worked for was a chef from Marseilles who had a passion for great foods. I grew to love the business. . . . I have made the restaurant industry my whole life.

Bob Basham especially wanted a restaurant concept that focused on steaks. The three men recognized that in the United States in-home consumption of beef had declined over the years, primarily because of health concerns. However, they also noted that the upscale steak houses and the budget steak houses were extremely popular in spite of all the concerns about red meat. That observation came from their market research, which Bob Basham described as follows:

We visited restaurants to see what people were eating. We talked to other people in the industry. Basically we observed and read trade magazines. That is the kind of research I am talking about. We did not hire a marketing research crew to go out and do a research project. It was more hands-on research. . . . “the experts said people will eat less red meat, but we saw them lining up to get in. We believed in human behavior, not market research.”

The partners concluded that people were cutting in-home red meat consumption but were still very interested in going out to a restaurant for a good steak. They saw an untapped opportunity between high-priced and budget steakhouses to serve quality steaks at an affordable price.

Outback operated in the dinner house category of the casual dining segment where 75 percent of all such establishments were family-owned and operated. The top fifteen dinner house chains accounted for approximately $9 billion dollars in total sales.13 Dinner house chains usually had higher sales volumes than fast-food chains. However, dinner houses typically cost more to build and operate.14

The initial investment for Outback came from the sale of the Chili’s restaurant franchise. Both men were able to forego taking cash salaries from Outback for the company’s first two years. Funding for the early restaurants came from their own resources, relatives, and the sale of limited partnerships. During 1990 the founders turned to venture capitalists for about $2.5 million. Just as the venture capital deal was materializing, Bob Merritt was hired as CFO. Trained as an accountant, Merrit had extensive experience with the financial side of the restaurant business. Prior to joining Outback, Merritt served as the vice president of finance for JB’s Restaurants. Merritt had IPO experience, and the founders later decided a public offering was warranted. The company went public in June 1991. The market had a general aversion toward restaurant stocks during the mid- and late 1980s. However, Outback’s share offering, contrary to expectations, traded at premium. CFO Merritt recalled his efforts to borrow funds in 1990 even after the venture-capital infusion:

In November 1990, Outback was really taking off. . . . The most significant limitation was capital. . . . So, I shaved off my beard—because Tampa is a fairly conservative community—and went from bank to bank. I spent every day trying to borrow. I think we were asking for $1.5M so that we could finance that year’s crop of equipment packages for the restaurants. We basically met with dead ends. . . . [It was] very frustrating. . . . So Chris and I started talking about where the market was. One strategy, I felt, was to sell a little bit of the company to finance maybe 18 months of growth, get a track record in the Street and come back with another offering with credibility. [So] we priced the transaction at about a 20 percent discount relative to the highest-flying restaurant stock we could find and, of course, the stock traded up from 15 to 22 on the first day. At that point we were trading at a premium for restaurant stocks.

Outback’s continuing success made possible two additional stock offerings during the following eighteen months. All

together, a total of $68 million was raised. By the end of 1994, the founders owned almost 24 percent of the company, which was valued at approximately $250 million.

 Outback's Strategy and Structure - "No Rules - Just Right"

The three partners debated for some time about the appropriate theme and name for their restaurants. They wanted a casual theme but felt that the western theme was overused by budget steak houses. Ultimately, they

focused on an Australian theme. None of the partners had ever been to Australia, but U.S. attention was focused there. Bob Basham explained:

In late 1987–88 when we started there was a lot of hype about Australia. We had just lost the Americas Cup not long before that. They were celebrating their bicentennial. The movie Crocodile Dundee had just come out. [So, there] was a lot of interest in Australia when we were looking for a theme . . . that was probably one of our hardest decisions . . . (we) wanted to stay away from a western theme. . . . [We] started talking about Australia [which] is perceived as very casual and we wanted to be a casual steakhouse. It is a good marketing niche tool and we continue to take advantage of it in our ads.

Bob’s wife, Beth, ultimately wrote the name “Outback” with her lipstick on a mirror. As Tim Gannon put it, the name epitomized:

[What] we wanted to convey. We wanted to be a hearty good-fun atmosphere and [the name] represents our personalities too. The three of us live robust, fun lives.

The founders of Outback were convinced that any enduring concept must place a heavy emphasis upon fun, family, quality food, and community. Bob Basham explained:

I don’t care what business you are in, if you aren’t having fun, you shouldn’t be in that business. . . . Chris, Tim, and I have a lot of fun doing what we are doing, and we want our people to have a lot of fun doing what they are doing. We try to set it up so they can do that.

Tim, whom the other two partners described as being the “hospitality” part of the team, elaborated on the entertainment aspect of the Outback theme:

We are in the business of entertainment and the way we entertain is through flavors. Service is a big component of that. We want our customers—someone who comes in at 7 p.m. and waits until 9 p.m. and leaves at 10:30 p.m.—to view us as their entertainment. We owe it to them!

Outback employees who waited on customers typically handled only three tables at a time, and this allowed closer

customer attention.

 Choosing the Menu—“Kookaburra Wings, Victoria’s Filet, Chocolate Thunder Down Under”

The company gave Australian theme names to many of the menu items. For example, Buffalo chicken were called “Kookabura wings,” a filet mignon was called “Victoria’s Filet,” and a rich chocolate sauce dessert was titled, “Chocolate Thunder Down Under.” The menu also included a wide variety of beverages, including a full liquor service featuring Australian beer and wine. The menu for the trio’s casual dining operation featured specially seasoned steaks and prime rib and also included chicken, ribs, fish, and pasta entrees. Tim explained the menu selections

for Outback:

At Outback we don’t look at other menus or trends. . . . [The] best things I learned in a lifetime I put in the menu.

The company’s house specialties included its “‘Aussie- Tizers’. . . and delectable desserts.”15 The company’s signature trademark quickly became its best-selling “Aussie-Tizer,” the “Bloomin’ Onion.” The idea for a large single-hearted onion cut to resemble a blooming flower, dipped in batter, and fried was originally developed by a New Orleans chef from a picture in a Japanese book. Tim added seasonings and enlarged it to “Outback size.” The company expected to serve nine million “Bloomin’ Onions” in 1995.

The menu, attention to quality from suppliers, and the emphasis on exceeding customer expectations all contributed to the high food quality. At about 40 percent of total costs, Outback’s food costs were among the highest in the industry. “If we didn’t have the highest food costs in the industry,” explained Bob Basham, “we would be worried.”

Outback’s founders paid particular attention to the flavor profiles of the food. As Bob Merritt put it:

One of the important reasons for our success is that we took basic American meat and potatoes and enhanced the flavor profile so that it fit with the aging population. . . . Just look at what McDonald’s and Burger King did in their market segment. They tried to add things to their menu that were more flavorful. McDonald’s put the Big Mac on their menu because they found that as people aged, they wanted more flavor. McDonald’s could not address that customer need with an old cheeseburger which tastes like cardboard. . . . That’s why Tex Mex is such a great segment. That’s why Italian is such a great segment because Italian food tends to have higher flavor profiles. It’s not happenstance. It’s a science. There’s too much money at risk in this business not to know what’s going on with customer taste preferences.

The founders knew that as people age, their taste buds also age. Thus, they recognized that their baby-boomer customers, those born in the 1946 to 1964 period, would demand more flavor in their food.

The 1995 menu remained essentially the same in character as originally envisioned in 1987. The price range of appetizers was about $2 to $6 with entrees ranging between $8 and $17. The average check per person was approximately $15 to $16.16 The changing of menu items was done with care. For example, a new item planned for 1995 was the rack of lamb. As Tim Gannon explained, the menu was an issue to which all three founders turned their attention:

Where we all come together is on the menu. Bob comes to the plate thinking how the kitchen can put this out and how it can be stored. Chris will look at it from how the customer is going to view it. Is it of value? I come to it from a flavor point of view. Is it an exciting dish? We all add something to the final decision.

Tim and the staff at the company’s original restaurant located on Henderson Avenue in Tampa, Florida, undertook most of the company’s R&D. The founders approved any menu changes only after paying careful attention to development. For example, Tim and the Henderson staff had worked for a number of months on the rack of lamb entree. Tim explained:

We have been working with it [the rack of lamb entree] for some time on the operational side trying to get the cook times down. The flavors are there. Chris is excited although it [the rack] is not a mainstream product. It is an upscale product for us. . . . We are still fine-tuning the operational side to be sure it is in balance with other things we are doing. We are serving 800 dinners a night, and you can’t have a menu item that throws the chemistry of the kitchen off.

 Quality Fanatics - "We Won't Tolerate Less than the Best"

Outback executives and restaurant managers were staunchly committed to the principle that good food required outstanding ingredients. Tim explained the company’s attention to the suppliers:

I have been to every onion grower from Oregon, Idaho, and all the way to Mexico looking for a continuous supply of single-hearted onions. I talk to the growers.. . . . If it’s a product you serve, you cannot rely on the words of a distributor to say, “This is what we have.” I have to get into the fields and see what they have. If I am going to take 50 percent of the crop like that, I have to get into the fields to know, to see, how the crop is developed. So that took me into the fields of Idaho to see what makes onions get that big and what makes double hearts because they are hard for us to use. We do that with everything, the species of shrimp, which boats have the ice, what’s the best safety standards. [I go] with the guys who purchase the cattle and learn to look for what they look for. . . . That’s the only way you can produce great food.

Supplier relationships were long-standing. The company made beef purchases centrally for the entire Outback system. The company’s original menu was designed by Tim Gannon with help from Warren LeRuth, one of New Orleans’s premier chefs. LeRuth recommended Bruss, a Chicago-based meatpacking company, as a source of high-quality beef. Tim explained why Bruss was such a great partner as a supplier:

We couldn’t even get samples [from the others]. We were on a low budget at the time. This company believed in us. They sent us samples after samples. . . . Their cutters were more like craftsman; the sense of pride that the Chicago butchers have about their product is really what we wanted in our restaurants. Bruss was at about $37 million at the time. Today, they are at $100 million, and we represent $75 to $80 million of that. We’ve been a great partner for them as they have been for us.

In 1994 Outback had two major suppliers of beef, but Bruss continued to supply over half of the Outback restaurants. About 60 percent of Outback’s menu items were red meat entrees, and its best-selling steak alone accounted for about 25 percent of entrees sold. The attention to quality extended, however, to all suppliers. Vanilla, used only for the whipped cream in just one dessert item, was the “real thing” from the island of Madagascar. Olive oil was imported from Tuscany and wheels of parmesan cheese from Italy. Tim explained the company policy:

. . . if any supplier replaces our order with a cheap imitation, I will know about it and they will not supply us anymore. . . . I will not tolerate anything less than the best.

The attention to quality and detail was also evidenced at the individual restaurant level. For example, croutons were made daily at each restaurant with 17 different seasonings, including fresh garlic and butter, and cut by hand into irregular shapes so that customers would recognize they were handmade.

In addition to his oversight of supplier quality, Tim Gannon also focused on continual training of the restaurant staff throughout the Outback system. He held about ten meetings a year in various parts of the country with staff members from various regional restaurants. Typically, about

50 kitchen managers and other kitchen staff attended these meetings. There was a presentation from a special guest with half of the group in the front of the restaurant. In the meantime, the other half of the group worked on “the basics” in the kitchen. Then the two groups exchanged places. Tim felt these meetings were critical for generating new ideas, sometimes from very new kitchen staff employees. For example, one new employee had urged attention to the dessert sauces. Discussion of this issue ultimately resulted in a reformulation of the sauces so that they did not so easily crystallize as well as the installation of the warmers that held the sauces at a constant temperature. This innovation allowed the restaurants to serve desserts more quickly.

The restaurant general managers also emphasized food quality. This commitment was illustrated by Joe Cofer, manager of the Henderson Street restaurant in Tampa, when he said:

We watch the food as it comes out of the kitchen, touching every single plate to make sure every single plate is perfect—that’s our commitment to this restaurant [i.e.,] to watch the food. We can take care of every single table by watching the food. If we have a problem at a table, we go to talk to them.

 Designing a Kitchen - "Bob Basham's Memorial Kitchen"

Facility design was also a critical component in quality food preparation. Bob Basham especially paid attention to kitchen design, so much so that Chris and Tim termed Outback’s kitchen design Bob’s “Memorial Kitchen.” Fully 45 percent of Outback’s restaurant unit was generally dedicated to the kitchen. Analysts and other industry observers had pointed out that Outback could enlarge the dining area and reduce wait times for customers. However, Bob Basham explained the logic behind the company’s restaurant design:

Restaurants get busy on a Friday night or a Saturday night when most people go out to eat. That’s when you are trying to make the best impression on people. [But] physically, the kitchen cannot handle the demand. So if you have standards in your operation of a 12-minute cook time. . . . [it’s] impossible to execute that way. We all decided we would not have it happening in our restaurant. So we underdesigned the front of the house and overdesigned the back of the house. That has worked very, very well for us. To this day we limit the number [of tables]. Even in our busiest restaurants where people tell us we could be twice as big and do twice the sales, we still discipline ourselves to build our restaurants one size.

The interior design was a “subtle decor featuring blond woods, large booths and tables [with] Australian memorabilia—boomerangs, surfboards, maps, and flags.”17 A typical Outback occupied over 6,000 square feet, featuring a dining room and an island bar. The restaurant area had 30 to 35 tables and could seat about 160 patrons. The bar had about six to nine tables with seating for about 35.

 Location is Everything? "You're Going to Put a Restaraunt Where? For Dinner Only?"

The company’s first restaurant was located on a site that had held several restaurants before Bob and Chris leased it. Early Outback restaurants were all located in strip shopping centers or were retrofits of existing freestanding restaurant sites. When the company first started, lease costs for retrofits were lower than the cost of constructing and owning a building. Bob Basham explained the rationale behind Outback’s location strategy:

. . . We call it our A-market B-location. . . . we didn’t have enough money to go to the corner of Main and Main. So we felt that if we went to a great market [that] had great demographics that we needed, and got in what we called a B-location, that typically most restaurant companies would think of as a B-location, we felt we could be successful there if we executed great, and that strategy continues today.

However, as the company expanded into other parts of the country, the cost structure shifted. In 1993 the company developed a prototype that was being constructed in most new locations. The company devoted significant effort to site evaluation efforts that focused on area

demographics, target population density, household income levels, competition, and specific site characteristics such as visibility, accessibility, and traffic volume.

Conventional wisdom in the restaurant industry suggested that facilities should be utilized as long as possible during the day. However, Outback restaurants were open daily for seven hours from 4:30 to 11:30 p.m. This dinner-only approach had been highly successful. The dinner-only concept had led to the effective utilization of systems, staff, and management. By not offering lunch, Outback avoided restaurant sites in high-traffic, high-cost city centers. Furthermore, the dinner-only theme minimized the strain on staff. Tips were typically much higher for dinner than for lunch or breakfast service. Outback restaurants averaged 3,800 customers per week and were usually filled shortly after opening. In an industry where a sales-to-investment ratio of 1.2;1 was considered strong, Outback’s restaurants generated $2.10 in sales for every $1 invested in the facility.

 "Every Worker an Owner ..."

The three founders keenly remembered their early desire to own their own restaurant. Consequently, Outback provided ownership opportunities at three levels in the organization: at the individual restaurant level; through multiple store arrangements (joint venture and franchise opportunities); and through the newly formed employee stock ownership plan.

Top management selected the joint venture partners and franchisees. As franchisee Hugh Connerty put it, “There is no middle management here. All franchisees report directly to the president.” Franchisees and joint venture partners in turn hired the general managers at each restaurant. All of the operating partners and general managers were required to complete a comprehensive 12-week training course that emphasized the company’s operating strategy, procedures, and standards.

From the beginning, the founders wanted ownership opportunities for each restaurant general manager and formed the limited partner arrangement. Each restaurant general manager committed to a five-year contract and invested $25,000 for a 10 percent stake in the restaurant. Initially, the arrangement was in the form of a limited partnership. However, the company was in the process of converting all agreements to general partnerships backed with liability insurance.

Under the program, the restaurant general manager received a base salary of $45,000 plus 10 percent of the pre-rent “cash flow” from the restaurant. “Pre-rent” cash flow for Outback restaurants was calculated monthly and defined as earnings before taxes, interest, and depreciation.18 Each manager’s name appeared over the restaurant door with the designation, “Proprietor.” An average Outback generated $3.2 million in sales and a pre-rent “cash flow” of $736,000. Average total compensation for managing partners exceeded $100,000, including an average $73,600 share of the restaurant profits. If the manager chose to leave the company at the end of five-year period, Outback bought out the manager’s ownership. If managers chose to stay with Outback, they could sign up for five additional years at the same restaurant or invest another $25,000 in a new store. After the company went public in 1991, the company began to give restaurant managers nonqualified stock options at the time they became managing partners. The options vested at the end of five years. Each manager received about 4,000 shares of stock over the five-year period. Outback’s attractive arrangements for restaurant general managers resulted in a 1994 management turnover of 5 percent compared to 30 percent to 40 percent industrywide.

By early 1995, eleven stores had celebrated their five-year anniversaries (see Exhibit 3). Of the eleven managers, two had left the company. One later returned. Four had gone on to new stores in which they invested $25,000 with the same repeat deal. Five stayed with their same stores, renewing their contract with additional options that would vest at the end of the second five-year period. Joe Cofer, manager of the Henderson Street Outback in Tampa, indicated how his position as general manager of the restaurant affected his life:

I have been with the Outback for about 4 1/2 years now. I started out as a manager. Sixteen months ago I was offered a partnership in

the Henderson store. I grew up in Tampa, right down the street, and have lived here nearly my whole life. So when they offered me this store, it was perfect. . . . If you walk in the restaurant and look at the name on the sign, some people I went to high school with say, “How in the heck did this happen?”. . . . The other organization [I worked for] had long hours when you were open from 11:30 in the morning until 1 or 2 in the evening. Those hours have a tendency to burn people out. . . . At Outback, from the [supplier] level all the way down to the dishwasher level we all work as a team. That is another difference between Outback and the organization I used to work for. . . . Here at Outback we don’t have those rules and regulations . . . Chris always claims he plays a lot of golf in the daytime and has a lot of fun. . . . He will come up to you and ask, “Are you having fun?” [We say] “Oh, we’re having a great time.” He says, “Okay, that’s the way you need to run this stuff.”

Multiple-store ownership occurred through franchises, joint venture partnership arrangements, and sometimes a combination. The founders’ original plan did not include franchises. However, in 1990 a friend who owned several restaurants in Kentucky asked to put Outback franchises in two of his restaurants that had not done very well. The founders reluctantly awarded the KY franchise. The two franchised restaurants quickly became successful. Under a franchise arrangement, the franchisees paid 3 percent of gross revenues to Outback.

After the IPO the company began to form joint venture partnerships with individuals who had strong operating credentials but not a lot of funds to invest. Under a joint venture arrangement a joint venture partner invested $50,000 and in return received a $50,000 base salary, plus 10 percent of the “cash flow” generated by the restaurants in his/her group after the restaurant general managers were paid their 10 percent. Therefore, a joint venture partner who operated ten Outbacks generating $600,000 each would end up with $54,000 per unit or $540,000 total plus the $50,000 base. Since Outback’s general managers were experienced restaurateurs, the joint venture partners focused primarily on area development, including site research for new locations and hiring and training new managers. The company instituted its employee stock ownership plan in 1993 for employees at the restaurant level. At the time the ESOP was established, all employees received stock proportional to their time in service. Each employee received a yearly statement. The stock ownership program required no investment from the employees and vested after five years.

Advertising and Promotion - "We have Always Establihsed that Outback is Quality Product at a Great Value"

Vice president of marketing Nancy Schneid came to Outback in 1990. Before working for Outback, Schneid had been first a media buyer in a large advertising agency and then an advertising sales representative for Tampa’s dominant radio station. She met Chris and Bob while she was at the radio station and they were running their Chili’s franchise. Although Chili’s advertising strategy did not usually include radio advertising, Chris and Bob chose to use a significant level of local radio advertising.

Nancy was well aware of Chris and Bob’s success with Chili’s. When they established Outback, she became an early investor in the form of a limited partnership. She explained how the radio station she worked with was able to help the three entrepreneurs with advertising:

When they first opened Outback they were struggling. Our radio station was expensive to advertise on. . . . So I made an opportunity for them to go on radio on a morning show that had a 35 percent share of the market and an afternoon show that had a 28 percent share of the market. That gave them the opportunity to tell the Tampa Bay community about the concept [which was] in a very B location on Henderson. Tim Gannon came at 5:00 a.m. and set up a cooking station downstairs. He cooked and ran food upstairs while Chris and Bob talked to the DJ. They basically owned the morning show.

Outback used very little print media. Print advertisements typically appeared only if a charity or sports event offered space as part of its package. Thus, Outback ads might appear in the American Cancer Magazine or a golf tournament program. Billboards were used to draw customers to specific restaurant locations. TV advertising began in 1991 after the local advertising agency, the West Group in Tampa, was selected. The company produced about three or four successful TV advertisements per year. Although not a company spokesman, well-known model Rachel Hunter had participated in several of the ads and had become identified with Outback. Hunter’s New Zealand origin was generally interpreted by audiences to be Australian.

Except for the development of the TV advertisements, advertising and marketing efforts were decentralized. As VP Schneid put it:

We are very much micro-managers when it comes to the spending of our media dollars. . . . We are very responsive to the needs of the community, for example, Big Sisters and Brothers. . . . [Our advertising, marketing, and community involvement efforts] help us build friends and an image of great food at a great price.

Community Involvement

Central to Outback’s operating strategy was a high degree of visibility and involvement in the community. Outback sponsored the Outback Bowl that first aired on ESPN on New Year’s afternoon 1996. In addition, the company was involved in a number of charity golf tournaments with a unique format involving food preparation and service at each hole. Community involvement involved not only top management but everyone at Outback. Each new store opening involved community participation and community service to charities. Other community involvement took various forms. The Tampa-based corporate staff included a full-time special events person with a staff that catered to charity as well as for-profit events in the Tampa area. For many charity events Outback provided the food while staff donated their time.

For example, a black-tie dinner for 400 was scheduled for May 1995 at Tampa’s Lowry Park Zoo, a special interest of Outback’s three top executives.

Every local restaurant managing partner was likely to have a Little League or other sports sponsorship. Basham explained:

We are really involved in the community. . . . I think you have to give back. We have been very, very fortunate, we have been rewarded . . . out of proportion to our needs, and we want to give some of that back to the community. . . . I think if more people did that we would have a lot less problems in this country than we have right now . . . I have certainly been rewarded out of proportion to any contribution I feel I have made, and I just feel I should give something back. That goes throughout our company.

 The Founders' Relationship

The three founders contributed in different ways to running the company. Each shared his perspective on his own as well the others’ roles. Chris gave his view of the trio:

. . . Bob and I became corporate-type restaurant people, and sometimes that is more systems-oriented and not so much hospitality-oriented. Tim really brought that to our success. But more than that, he is easy to get along with. He absolutely gets done what needs to get done. He needs a little prodding. Bob and I need a little prodding. So the three of us kind of stay on each other, kid each other a lot, but more than anything support each other to make this thing work.

Bob explained the synergy among the three:

We have been together eight years. I think we have a balance between our strengths and our weaknesses. There are some things Chris does extremely well that I don’t do well. There are things that Tim puts into the formula that Chris and I could not do as well as he does, and hopefully there are some things that I do well that they would need. I think just the three of us have synergies together that have really worked very positively for us. We kind of all feed off of each other. . . . Right now, each one of us has a different role in the company. I concentrate on operations, the people side of the business, the day-to-day going-on of the business. I think Chris has a little more of the strategic overview of the company, keeps us going in the direction we need to be going. He is very good at seeing things long-term. Tim is our food guy. Tim makes sure that we can all have a lot of fun. He has a lot of fun in his work. So we have a balance there. We all contribute and it all works.

Tim gave his perspective on how he fit in:

. . . My challenge: How do I fit in? . . . Partnerships of three are always hard but it has worked very well. I now understand my role and have been treated well. . . . [There is] nothing in life greater than having a great partnership. . . . We meet all the time. I never make a menu decision without them, Chris has eyes for the guest and Bob has eyes for the employee. . . . A lot of organizations bust up at the top, not bottom! I only want to work with Outback.

 Competition

A number of competitors in casual dining’s steak dinner house subsegment had begun to make their presence felt. The most formidable competition was the Wichita, Kansas-based Lone Star Steakhouse & Saloon. However, there was also a growing set of players with a formula involving rustic buildings and beef value items that began operations in early 1990 and 1991. These included Sizzler International’s Buffalo Ranch, Shoney’s Barbwire (being sold by Shoney's), S&A Restaurant Corp.’s Montana Steak Co., and O’Charley Logan’s Roadhouse. In addition, a number of chains had added or upgraded steak menu items in reaction to Outback.

Chris Sullivan explained his view of competition and what Outback had to do:

Our competitors—there are a lot . . . [We] can’t run way from it—it’s a fact. I think a lot of companies get in trouble because they start worrying about what the competitor is doing and they react to that. We really ask our people and we talk about—just go out and execute and do what you do best. The customers will decide . . . If we continue to do what we have been doing, we feel very, very confident that we will continue to be successful regardless of the number of competitors out there because with our situation, our setup, and the proprietors we have in our restaurants, I don’t think there is anybody who can compete with us.

 Outback's Future

The company as a whole was optimistic about its future. Wall Street analysts were skeptical, however. Citing the numerous entrants into the industry, they argued that casual dining operators such as Outback were close to saturation and questioned whether the firm could withstand the intense competitive pressures characteristic of the industry. However, Outback’s management was unperturbed by Wall Street concerns or by the increasing competition. Joe Cofer summarized the management attitude:

I’ve heard so many times, “I love coming to your restaurant because your staff is so upbeat, they are so happy.” They are always great people to have work for you. People just love the people here. . . . I see us as a McDonald’s of the future, but a step up. I don’t think anybody can come close to our efficiency because it is so simplistic and everyone is so laid back about it from the owners on down. And we are having such fun, making so much money. No one wants to go anywhere. I will never work for another company as long as I live. . . . You have that feeling mixed with the great food. I don’t think anyone is a threat. . . . You have a very good investment with the stock. The stock has split three times in the last three years. . . . This is just going to split more and more and more. I’m just going to hold on to it forever. Hopefully, it will be my retirement.

The company intended to drive its future growth through a four-pronged strategy: (1) continuous expansion within the United States with an additional 300 to 350 Outback concept stores, (2) the rollout of Carrabbas Italian franchise as its second system of restaurants, (3) development of additional restaurant themes, and (4) international franchising. Chris Sullivan explained:

. . . We can do 500 to 600 restaurants, and possibly more over the next five years. .(in year 2001 there are 645 Outback locations) . . Our Italian concept, Carrabbas, that is in its infancy stage right now. . . . has the potential to have the same kind of growth pattern that we have had in Outback. . . . We will continue to focus on Outback and continue to build that because we have a lot of work left there. Develop Carrabbas (80 locations exist in 2001) and use that as our next growth vehicle and continue to look . . . for a third leg on that stool, and who knows what is going to be hot in a couple of years. . . . The world is becoming one big market, and we want to be in place so we don’t miss that opportunity. There are some problems, some challenges with it, but at this point there have been some casual restaurants chains that have gone [outside the United States] and their average unit sales are way, way above the sales level they enjoyed in the United States. So the potential is there. . . . We are real excited about the future internationally (Outback is now in 13 countries).

In the face of the dire predictions from industry observers and analysts, Outback CEO Chris Sullivan put his organization’s plans quite simply: “We want to be the major player in the casual dining segment.”19

 Additional Internet Links

* Hoovers on Outback - <http://www.hoovers.com/company/OSI_Restaurant_Partners_LLC/ryxjki-1.html>

Peel back the layers of this bloomin' restaurateur, and you'll find more than a steakhouse. OSI Restaurant Partners is the #2 casual-dining company in terms of revenue (behind Darden Restaurants), with nearly 1,500 locations in the US and 20 other countries. Its flagship Outback Steakhouse chain boasts more than 970 locations that serve steak, chicken, and seafood in Australian-themed surroundings. OSI also operates the Carrabba's Italian Grill chain, with about 240 locations. Other concepts include Bonefish Grill and Fleming's Prime Steakhouse. A small number of the restaurants are franchised. The company is owned by a management group with backing from Bain Capital.