Case 27

CHARLEY'S FAMILY STEAK HOUSE

"I guess I'll just have to find out if I can still cook like I used to," thought Alex Pearson, manager of Charley's Family Steak House No. 2, as he hung up the telephone. One of his cooks had just called in sick, one was in the hospital, and the other two were on vacation. He wasn't too concerned, however, because the first two weeks in January were typically not very busy. Many of the steady customers made annual New Year's resolutions about losing weight, and it usually took at least a week for them to resume their former eating habits. Alex's only real concern that morning was how Charley Turner, the owner of the steak house, would assess Alex's performance now that he had completed his first year as manager.

Unit No. 2 was one of four Charley's Family Steak Houses owned by Mr. Turner. All four restaurants were similar in size and appearance, and they were all located in a rapidly-growing mid-size city in Texas. Unit No. 2 had seating for about 150 customers and employed 18-20 people. None of Charley's Family Steak Houses served breakfast, although Mr. Turner was thinking seriously about test marketing the idea at one of the restaurants as a means of covering some of his fixed costs.

The four restaurants had identical menus, and prices were similar, although not necessarily identical. Each restaurant manager had the authority to raise or lower specific prices by an amount not to exceed ten percent of the suggested prices provided by Mr. Turner. The menu for Unit No. 2, shown in Exhibit 27-1, had from four to six items in each of four categories, ranging in price from $1.99 for a side salad to $16.99 for the lobster dinner. In prior years, menu prices had usually been changed at least once during the year, but during the 1994 calendar year, prices at Unit No. 2 had remained the same. Food purchases were done centrally by Mr. Turner or his assistant in response to orders placed by the restaurant managers.

Charley Turner opened his first family steak house in 1983. He managed his restaurant for five years, experimenting with various menus, pricing strategies, and customer service concepts. His goal was to create the best steak house in the city—one that was known for having a pleasant atmosphere, fast and courteous service, high quality, freshly-prepared food, and reasonable prices. As with most other steak houses, the menu was posted on the wall, and customers went through a cafeteria-style line to place their orders, pick up their beverage, and pay the cashier. The food was then prepared and brought to the tables by the staff of servers.

Unlike the competition, Mr. Turner had developed an express service innovation for frequent lunch-time customers who didn't have a lot of time to eat. It consisted of a "quick-serve" menu, prepaid meal cards (the cost of each meal would be punched out on the card), and a separate ordering and payment line. This innovative service became very popular with the people who worked in nearby office buildings and other businesses.

Alex had been promoted from assistant manager to manager of Unit No. 2 in December 1993, after the manager was caught falsifying the weekly reports submitted to Mr. Turner. Alex had previously worked as a cook at Unit No. 1 and as assistant manager of Unit No. 4. He was moved to Unit No. 2 in June 1993, because Charley Turner had serious concerns about the manner in which that restaurant was being managed. Mr. Turner was not an easy person to satisfy, however, and he frequently referred to how he used to do things when he owned and managed Unit No. 1.

Unlike the other three restaurants, Unit No. 2 was located next to a small shopping center and close to a large office complex. In July 1994, a 100-room budget motel with a pool but no restaurant opened within easy walking distance of the steak house. Except for a sandwich shop and pizza place located in the shopping center, there were no other eating establishments within about one mile of Unit No. 2. Charley Turner considered it to be an excellent location.

Soon after accepting the manager's position, Alex had met with Mr. Turner to discuss the 1994 plan for Unit No. 2. Except for a slight reduction in projected sales volume, Alex graciously accepted the annual operating plan Mr. Turner had proposed. Although the plan was not unreasonable, Alex viewed it as very aggressive and optimistic. Nevertheless, he was delighted with his new position and the opportunities it would provide. He felt confident he would find a way to meet the high expectations that Charley Turner had for Unit No. 2 and for Alex as its manager. Besides, Mr. Turner informed him that he was implementing a bonus system that would make Alex eligible to earn up to an additional 25 percent of his salary. The specific performance measures on which the bonus would be based had not been decided, and Mr. Turner told Alex that he would solicit his suggestions later in the year. For some reason unknown to Alex, he was never asked for his thoughts regarding the details of the new bonus plan. He hoped to have an opportunity to make his views known when he met with Mr. Turner later that week to review the operating performance of Unit No. 2 for the calendar year 1994.

In planning for his upcoming meeting, Alex had prepared an operating statement comparing the actual results with the original plan for 1994 (see Exhibit 27-2). As an aid to understanding and interpreting this operating statement, Alex also had prepared the explanation of terms shown in Exhibit 27-3. His task over the next few days was to prepare himself to explain to Charley Turner why Alex thought both he and Unit No. 2 had performed extremely well in 1994 despite the fact that the restaurant's profit was $47,490 less than originally planned by Mr. Turner and agreed to by Alex. Neither he nor Mr. Turner had foreseen the severity of the recent recession when the plan was adopted, yet Alex doubted that Mr. Turner would be sympathetic to any such explanation regarding the profit shortfall. Alex suspected that the only hope for receiving a bonus was for him to prepare an explanation of the 1994 operating results for Unit No. 2 that was comprehensive, logical, and very convincing. He knew he had done a good job. All he had to do now was to convince Charley Turner. Doing so would entail responding to Charley's two favorite questions: How did actual sales compare with planned sales? and How well were costs and expenses controlled?

EXHIBIT 27-1

CHARLEY'S FAMILY STEAK HOUSE

MENU

	Top of the Line	
	Lobster Dinner	$ 16.99
♦	New York Strip	11.99
♦	Jumbo Shrimp	10.99
	Prime Rib	9.99
	Popular	
♦	Sirloin	8.99
♦	BBQ Ribs	8.99
	Seafood Platter	8.99
	Sirloin Tips	8.79
♦	Chicken Breast	8.29
	Rib Eye	8.19
	Value	
♦	Chopped Sirloin	6.99
	Country Fried Steak	6.79
♦	Baked Fish	6.79
♦	Fried Shrimp	5.99
	Ham Steak	5.79
	Sandwiches and Salad Bar	
♦	Chopped Steak	3.99
♦	Fish Fillet	3.79
♦	Beef BBQ	3.79
♦	Barbecue Chicken	3.59
♦	Jumbo Hot Dog	2.99
♦	Salad Bar Buffet	5.99
♦	Side Salad	1.99

♦ Quick-serve menu item

EXHIBIT 27-2

CHARLEY'S FAMILY STEAK HOUSE

Operating Statement

	1994 Actual	*1994 Plan*
Gross Sales	$ 1,936,025	$ 1,861,860
Net Sales	1,726,725	1,761,760
Food	1,025,870	1,024,020
Labor	207,000	220,000
Expenses	152,450	148,950
Contribution	341,405	368,790
Advertising	78,625	65,165
Miscellaneous	3,320	3,000
Depreciation	24,000	24,000
Insurance	9,780	9,400
Taxes and licenses	10,940	11,700
Rent (Base)	72,000	72,000
Rent (Overage)	26,980	23,275
Management	98,000	95,000
Profit	$ 17,760	$ 65,250

Supporting Data:		
Average weekly customer count	4,025	3,870
% customers - lunch	50%	40%
% customers - dinner	50%	60%
Gross average check - lunch	$7.50	$7.50
Net average check - lunch	$6.50	$7.00
Gross average check - dinner	$11.00	$10.50
Net average check - dinner	$10.00	$10.00

EXHIBIT 27-3

CHARLEY'S FAMILY STEAK HOUSE

Explanation of Operating Statement

Gross sales:	Total sales using menu prices.
Net sales:	Gross sales minus discounts that were mainly from use of coupons. The coupons were good at any of the four Charley's Family Steak Houses.
Food:	About 60% was the cost of main dishes, and about 40% was the cost of side dishes, condiments, beverages, and desserts. The annual food cost in the plan was based on the expected food cost for each menu item and the expected total sales of each item. Alex thought the actual prices of food purchased by Mr. Turner had been about 2% below the level used in the plan.
Labor:	The projected annual labor cost was based on 20 employees at an expected average wage of $5.50 per hour. Labor cost was expected to vary with the number of customers. During the year, the average wage at Unit No. 2 had actually been $5.75 per hour.
Expenses:	Expenses included supplies, maintenance, utilities, and miscellaneous expenses. Alex thought they were driven primarily by customer count, and the plan set them at 8% of gross sales.
Advertising:	Mr. Turner managed the advertising for the four units. Of the 3.5% of gross sales included in the plan, 0.5% was for use by the restaurant manager, 1% was for broadcast media, 1% was for print media, and 1% was for ad preparation.
Miscellaneous:	A catchall for small items, some fixed and some responding to customer-count variations.
Depreciation:	This represented straight-line depreciation on furniture and equipment.
Insurance:	This represented both property and liability insurance.
Taxes and licenses:	This represented federal, state, and local taxes in addition to a variety of local business fees and licenses.
Base rent:	A fixed annual rent paid on the restaurant property.
Rent overage:	A variable amount equal to 5.0% of the excess of actual gross sales above 75% of planned gross sales.
Management:	This consisted of the restaurant manager's and assistant manager's combined salary of $55,000 and a charge that Charley Turner assessed to cover his salary and expenses, in addition to the purchasing, accounting, and other activities that occurred at corporate headquarters.