14-1 Pet Groom & Clean (PG&C)

David Green is considering his operating statement for 2010, which is displayed in the table below. David is the manager of store number 88, where he began as one of the staff 6 years ago, and through hard work has risen to become manager of the store. The operating report shows his budgeted performance for the year and the actual results, showing a net improvement of 9% over budget--$405. While his results are positive, the small improvement over the budget does not qualify David for the bonus program which awards a $3,000 bonus for store managers who improve their performance over that of the budget by 20% or more.

David manages one store in a 110 store chain of pet grooming stores owned by Pet Groom & Clean Company (PG&C). As for other PG&C stores, his store is open Monday through Saturday each week; the only service provided at the store is a service in which a pet, dog or cat, is groomed and cleaned, typically while the customer waits. The budgeted price for the service at the beginning of 2010 was $25. Budgeted variable costs were $2 for materials and $9 labor cost per service, as well as other variable costs of $1.50 per service. Materials are purchased by local store managers, and all staff are hired and supervised by the local store managers. Other budgeted and actual information for 2010 are shown in the table below.

David is an ambitious and hard working manager, who has applied himself to the job and has looked for different ways to attract customers and to reduce costs. For example, he noticed that most of the company's customers brought their pets in on Friday, Saturday, and Monday, and the number of customers was significantly lower on Tuesday through Thursday. In fact, David budgeted that 80% of total demand for 2010 would be in the Friday-Monday period, and only 20% would be in the Tuesday-Thursday period. So at the start of 2010 David began a promotion that reduced prices on Tuesday through Wednesday to $18 in an effort to draw in more business during these three days. Also, noting the strong demand in the Friday-Monday period, David decided to increase the price during those days from $25 to $30. An experienced manager, David was able to manage labor costs so that staff were not idle, even on slow days; David scheduled the number of staff to meet the expected demand on each day, and because of his experience (and because his store encouraged appointments), his forecast of demand was usually quite accurate. Thus, labor cost is fairly treated as a variable cost for David's store. Labor costs consists of 3 staff who are budgeted to work 2,500 hours per year at a budgeted pay rate of $12 per hour, thus the total budgeted labor costs of $ 90,000 (= 3 x $12 x 2,500). Through his careful scheduling of staff, and his effective management style, Dave was able to save labor time so that each of the three employees worked only 2,250 hours in 2010.

Other expenses include training expenses --each staff employee is expected to have at least 6 hours of training at the PG&C headquarters during the year; the local store is charged $250 per hour for this training. The local store manager determines the amount of training time for each staff. Other expense also includes advertising expense, which is controlled by the local managers; PG&C recommends that advertising should be about 1% of total sales. Service development is the cost of studying new products for use in the stores and for the study of potential new ways to improve the services provided at PG&C stores. Service development is charged to each store based on the allocation rule of 10% of store sales. Accounting, insurance costs, taxes, and management overhead (which includes store rent and manager's pay) are paid at the home office of PG&C and are allocated based upon a formula which combines store size, store sales, and the age of the store. Employee benefits accrue to staff at the rate of 20% of total pay. These benefit payments are contributed to a 401(k)-type retirement plan for each employee.

The result of David's promotional price for the Tuesday-Thursday period was successful, as total sales increased from 10,000 to 10,500 and the Tuesday-Thursday sales increased from 20% to 30% of total sales.

REQUIRED:

From David Green's perspective, develop an analysis which explains your performance for the year ended December 31, 2010.

Pet Groom and Clean: Store Number 88
Operating Statement

	Year Ended December 31, 2010	
	Actual	**Budget**
Gross Sales	$ 277,200	$ 250,000
Less Variable Expenses		
Food	23,100	20,000
Labor	91,125	90,000
Operating Expenses	19,425	15,000
Total Variable Expenses	133,650	125,000
Net contribution	$ 143,550	$ 125,000
Other Expenses		
Training Expenses	2,750	4,500
Advertising	3,200	2,000
Service Development	27,720	25,000
Accounting and insurance	13,750	12,000
Taxes	7,500	6,500
Management overhead	65,500	52,500
Employee benefits	18,225	18,000
Total Other Expenses	138,645	120,500
Net Income	$ 4,905	$ 4,500