

## **Restaurant Operations Notes: Money left on the table** **by: John A. Gordon, Principal**

We had the opportunity to travel through the US in November and December and got into a lot of restaurants. We saw good things, and good people, but also some operational issues that have the result of leaving dollars on the table—revenue enhancement and expense related. We have seen these issues often enough throughout 2010 and 2011 to mention the commonalities.

None of this is brain surgery; restaurant professionals have been talking and working on these issues forever. But execution challenges exist, and easily amounts to that magical one point of same store sales gain and/or multiple pennies/share earnings. Where appropriate, we've ascribed this to a specific operator or restaurant sub-segment.

### **Revenue related**

**Lack of suggestive upselling or actual down selling (QSR):** it is a rare occasion where we are upsold in QSR and fast casual settings. In some situations, the sale is actually downsold, e.g., “will that be the sandwich?” even by store management. My hope in 2012 is that every customer can be upsold once, face to face. In QSR situations, there must be a comeback situation for hourly staff for where the answer is “no combo”. What's the next default?

**Overkill with POS displays (QSR):** via a QSR survey recently, we counted the range of the number of printed in store visual communications pointed at the customer. The high was 87 distinctive signs (Carl's) and the low seven (Pizza Hut, with almost all price merchandizing and only two specific product related displays). Some drive thru windows and chutes were a veritable forest of signs. Assuming 45 seconds at the drive thru chute and panel, how much can be seen? Too many displays seem to be counterproductive and split the product mix.

**Dessert size, portions and price prohibitive (Casual dining):** We confess that we have a taste for chocolate, and often have been staggered by the size, calories and price (\$6-8) for a post meal dessert item at the casual diners. To our memory, both Chili's and PF Chang's (PFCB) are working with smaller bite sized “tastes”, but have not reported on menu mix hit rates for these items. That might be illustrative for the industry.

### **Expense related**

**Staffing standards (casual dining)** in general we see way too heavy staffing from 1100a to 1200 noon, and from 500-600P, especially in the Darden concepts (DRI) and at Chili's (EAT), but understaffed after 900p (DINE-Applebee's), especially among wait staff. Perfecting matching labor hours, customers and restaurant needs will never be possible, and hourly employees do want hours, of course. Since the average check should go up in later hours, perhaps both labor hour and sales/man-hour standards and calculations are required to blend the schedule to most optimal.

Closely related to this point is **new unit opening labor staffing (both QSR and Casual Dining):** when a new unit opens, we are justifiably proud of it and want the opening to go flawlessly and get new employees trained. But our observation is that the necessary staffing up period goes on too long after opening, making the service experience realistic for both guests and employees, for when the eventual, sharp ramp back to standard staffing levels occur. We suggest that the ramp up and ramp down be more graduated and less “sharp”.

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**Out of whack air conditioning: (electricity/air conditioning: QSR and casual dining)** with Starbucks and the coffee houses as a strategic exception (colder=intent to consume hot beverages goes up), we see dining room cooling temperatures way out of whack, particularly after sundown, when it does cool off. This could take CAPEX to fix if not separate AC units exist for the FOH/BOH, both of which have different heat profiles.

**Too much product pre-cooking (QSR):** The goal is hot food hot and cold food cold. With the growth of big burgers, more complex menus and 24 hour breakfast operations, the back of house is more challenging. Product is warmest when first cooked, and has a finite holding time in bins. Jack in the Box (JACK) does a nice job of delivering hot product, but we are noticing more cooler burgers served at McDonalds (MCD) the last year.

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