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URBAN COOKHOUSE

Kevin Gibson
Joshua Reed
Christine Wang
Charles M. Carson
Barbara H. Cartledge

Samford University

Abstract

In its first few years of operation, Urban Cookhouse became a household name throughout the city of Birmingham, AL. David Snyder, founder and part owner, became very intrigued with the restaurant industry through his work and success with Zoe's Kitchen. After climbing the ladder with Zoe's Kitchen, and spending a year under world-renowned Chef Chris Hastings at Hot and Hot Fish Club in Birmingham, David developed the knowledge to cultivate a brand that he believed would appeal to everyone. This unique idea placed emphasis on wood-grilled meats, local produce, and homemade vinaigrettes, with the goals of serving quality and well prepared food. This concept allowed many people to experience and understand Urban Cookhouse's slogan: "Buy Local, Eat Urban." After great success in its initial years, the company was looking to expand operations. A major cornerstone of Urban Cookhouse, also known as UC, was the people that represented its name. The company wanted the right people in place to support a smooth expansion and opening of desired and hopeful new restaurant locations. There were many obstacles that were ahead relative to hiring and incentivizing the right managers, as well as identifying the right franchisee candidates. David knew that the real work had only just begun, and that the decisions that the company faced in the coming months would lay the foundation for Urban Cookhouse's growth efforts.

Key Words
Case Study, Entrepreneurship, Restaurant Management, Human Resources

Introduction

As the days approached for Urban Cookhouse's (UC) newest location to open in the Crestline neighborhood of Mountain Brook, AL, the unexpected occurred. A few weeks before opening, the Crestline assistant manager left the company to pursue other interests. This was an instant red flag for co-owner David Synder and his team that a proper Human Resource (HR) system was not in place. Drawing on their local network of contacts, management was able to resolve the issue quickly; however, this led David to contemplate and worry about similar issues that could possibly arise within outer market locations. The firm needed reliable leaders at these locations; leaders that understood what it took to drive sales, motivate employees, and mitigate food and labor costs. These leaders would be the face of the location. Most of all, they wanted to work to incentivize these managers in order to maintain a stable environment in these future and current locations. David knew that HR procedures and protocols must be established for Urban Cookhouse to continue to grow. These systems would hopefully minimize risk, properly incentivize and train managers as well as develop efficient and effective methods for recruiting quality managerial candidates.

Company Background

During his final year in The University of Alabama's MBA program, David Snyder began his work with Zoe's Kitchen. At the time David began his work with Zoe's Restaurant there were only six locations. He always knew he had the ability to host people, but this reinforced David's belief that not only was he good at conversing with the customer, but he was quickly grasping his role within the organization. David took the job at Zoe's Kitchen "under the premise that I would move up if I was his best performer." David performed extremely well, and worked his way up to Director of Operations. David had achieved a position of authority in a very short period of time. From there, he was able to oversee the opening of 13 Zoe's Kitchen locations.

"I've always known I wanted to be an entrepreneur, and I've always been a natural leader. Once I saw that I was that successful inside of the organization, and the organization was that successful within the industry, it just gave me a lot of confidence knowing that I could replicate it with a different menu; but the same business model in terms of catering roughly the same per-person average and same number of people a day. I thought I had some unique ideas from my travels."
- David Synder

David had visited several major US cities, and experienced the local flair that each restaurant carried within itself. He knew he could create something similar in Birmingham. David began Urban Cookhouse with two basic ideas: cooking over hickory-wood or charcoal, and using fresh ingredients from local farms. His grandfather was one of David's biggest inspirations as he owned ½ to 1 full acre of land that he farmed and grew fresh vegetables for over forty years while David's Great Aunt raised chickens. David's family would use the eggs from these chickens in many family meals. David remembered his original experience on the grill, "no lighter fluid or propane…old school." This was the kind of feel he wanted his restaurant to deliver to his customers. He noticed a trend across the country of restaurants advertising with a major focus on “freshest” ingredients. David felt many mainstream restaurants “watered-down” this term. Over time, this trend shifted to local and in-season foods. David saw a window of opportunity to apply his experiences in a fast-casual restaurant setting. When he eventually left Zoe’s Kitchen as Chief Operating Officer he signed a 1-year non-compete clause, which allowed him to work for Hot and Hot Fish Club, which was located in Birmingham, AL and owned by an award-winning chef. Through working in their kitchen, he developed a much stronger understanding about the culinary side of the restaurant business, and also made numerous connections with local farmers. This reinforced to David how significant fresh and local ingredients would be to his menu. While working at Hot and Hot Fish Club, David consulted with focus groups that were made of people whom David pictured to be his potential customers. He would deliver them food, and afterwards they would fill out an anonymous survey on Survey Monkey in regards to the dish they had eaten. After receiving survey results, he would then tweak his product.

In 2010, the first Urban Cookhouse opened within the Soho district of Homewood, AL. This district was a retro themed retail shopping area. Other districts around Birmingham pursued David to open an Urban Cookhouse; however, David never felt the timing was right. However, in 2011, a well-timed opportunity developed for David and his team to expand their product to the Summit. The Summit was a robust shopping district located within a wealthy area in the Birmingham Metropolitan area. An SBA loan and some tenant improvement money gave Urban Cookhouse the cash flow needed to fund operations at the Summit location. As David’s wife, Andrea Synder, became less involved with operations due to a growing family, David partnered with Will Gillespie, a former Zoe’s Kitchen franchisee who had three very successful stores within a three state footprint. The Zoe’s Kitchen corporate office was so impressed by the success of these locations and how lucrative they were, that they repurchased his stores and franchise rights. After partnering with Will, David felt he was now poised to take Urban Cookhouse to the next level. “Partnering with Gillespie gives Urban Cookhouse the operational, franchising and financial resources we need to take our brand to the next level. We could not be more excited about what the future holds for our company” (Hopkins, 2013). A third location in Crestline (see Exhibit 1 for a map of locations) was nearing its opening day, and there were several other options for out of state expansion under consideration.

Urban Cookhouse Locations Maps courtesy of Apple, Inc.

Exhibit 1

INDUSTRY ANALYSIS

Prologue:

Urban Cookhouse began when consumers were trending to a more health conscious diet while also craving convenience. Will Gillespie, David and his wife Andrea Snyder used the limited-service restaurant approach which they were familiar with from experience with Zoe's Kitchen. They focused on quick but superior service, quality menu with reasonable prices, and prime real estate location.

Current Conditions:

"American Express estimates that 90% of restaurants fail in the first year, but Cornell University asserts that a more likely estimate is 60%, with an increase to 80% in the first three to five years of operation. In short, only 10% to 20% of all restaurants get to see the end result of their five-year business plans" (Wendy, 2013).

According to IBISWorld, the Fast Food Restaurant Industry is segmented into four products and services with revenue totaling $191.0 billion. These products and services along with their 2013 YTD revenue percentage included:

- Off premises (take-out) limited-service restaurants (18.1%)
- Cafeterias and buffets (4.6%)
- Drive-thru limited-service restaurants (34.4%)
- On-premises limited-service restaurants (42.9%)

A sluggish economy and differentiating consumer preferences led this industry to experience a slowdown during the preceding five years. Due to the economy, consumers were forced to cut back on luxuries such as eating out. Consumers also became more health conscious during this period forcing restaurants to expand their healthy menu options. As the health conscious trend gained momentum, many fast food chains incorporated this factor in their marketing strategy. UC not only incorporated this theme, but also used it as the basis of their operations using only the freshest and local ingredients. David expressed his frustration with chain restaurants, as he believed they "watered-down" this consumer focus.

With weaker market conditions, the growth in the number of establishments had stagnated to a projected 1.3% per year with revenue projected to increase roughly 1.0% per year. In return, industry employment was expected to decline at an average 0.1% per year. Through a stagnant growth period, specialty chains and ethnic food chains remained strong. With UC placing a major emphasis on growth, many determinants hindered their aspirations.

The consumer spending, healthy eating index, consumer sentiment index and agricultural price index were the major external drivers for the Fast Food Restaurant industry. As UC focused on quality local ingredients, the agricultural price index deemed that this was a key determinate in setting meal prices. If ingredient prices increased, UC needed to respond with parallel price adjustments or costs reductions to maintain necessary profit margins (IBIS*World, 2013*). June 2013 agriculture statistics provided by the USDA showed prices paid by farmers increased 3.3% from one-year prior. In contrast, prices received by farmers increased 9.3% since June 2012 (USDA, 2013). The average firm's 2013 profit margin was forecast to fluctuate between 2.0% and 5.0% (IBIS*World, 2013*). Profit margins, i.e. net income as a percentage of revenue, were extremely vulnerable in this industry, and affected with any change in consumer demand and prices paid for ingredients.

IBISWorld developed over 250 key success factors for this industry with six major factors contributing to company performance. The six factors included business expertise of operators due to high turnover and low margin, clear market positioning, effective cost controls, ability to franchise operations, selling the product in high profile outlets, and access to multi-skilled and flexible workforce. Likewise, David saw these as important factors during his market research prior to opening UC.

"Why do people go to Chick-fil-A? Because they know the service will be good. The restaurant industry has higher than average turnover rates. The quality of the employees is the impact on customer service."
-David Snyder

David's statement explained the current success of UC, and gave reasoning relative to how others thrived or failed within the industry. "The key to restaurant success is keeping customers happy, and making sure they want to return. If a restaurant has poor customer service, then the business is bound to fail in the long term" (Wendy, 2013). Though not the only success factor for this industry, David understood its importance as a differentiator in the industry.

Franchises had seen tremendous success in the Fast Food Restaurant Industry including McDonalds, Subway, Chick-fil-A and David's former employer, Zoe's Kitchen. David explained he had received over 20 franchise applications ranging in geographic areas from Alabama to Michigan. Though franchising was currently under discussion and consideration, UC was not yet in the franchising business. The most recent US economic census revealed franchised limited-service restaurants accounted for 59% or 124,898 of total limited-service establishments and 74% or $112.55 billion of total limited-service sales (US Census Bureau, 2007). Granted this census was compiled in 2007 and somewhat inaccurate due to age, this data gave beneficial statistics for current performance. The most recent 2013 IHS publication for franchise economic outlook forecasted the number of quick service franchise establishments to increase by 1.5% to 153,423 corresponding with a 5.2% increase in sales to $206.87 billion (IHS Global Insight, 2013, p. 3). With comparison to IBIS World growth in revenue of 1.0% per year for the industry, franchise establishments saw an estimated and astounding 83.8% growth in sales since 2007. Compounding for the six-year difference since 2007, this growth amounted to 13.97% per year. Though assumptions were based on growth projections, franchises yielded above industry average results. Whether a coincidence or pure genius, David identified the six major key success factors for the industry and how these were utilized for the benefit of Urban Cookhouse. Franchising was on the table, but would the market be ready to "Buy Local, Eat Urban."

<u>Presenting Issue:</u>

Urban Cookhouse emerged as one of the more popular Birmingham destinations due to their location, menu, customer service and culture. Gaining momentum with a soon to open third location, partners David Snyder and Will Gillepsie, realized their current growth opportunities and aspirations did not fully align with existing HR processes. UC desired and needed an advantageous recruitment, training and retention program to help attract and employ quality leaders for future operational success. There was concern among the partners that they were stepping out of their comfort zone (running successful restaurants) and into the unknown world of HR policies and procedures.

Recruitment

"We need the best system possible, for areas where we have needs, to get the most qualified applications possible in the shortest amount of time…effectively reviewing applications so we don't miss out on the better candidates."
-David Snyder

Though specifically addressing management positions, David shed light on an industry that had a significant burden dealing with high employee turnover. The 2012 year end Job Openings and Labor Turnover survey revealed a 60.8% employee turnover rate for the accommodation and food service industry compared to a total 37.1% employee turnover rate for all industries (US Dept. of Labor, 2013). Extensive research of thirty case studies revealed the cost associated with replacing an employee who earned less than $30,000 averaged 16% of the worker's annual salary. The average cost increased to 20% for workers who earned $75,000 or less (Boushey & Glenn, 2012). With an increasing trend since 2010, employee turnover persisted to be a significant challenge and expense for this industry. As David wanted UC to expand outside of their current market, he questioned the best processes for recruiting and hiring managers. He wanted to overcome the restaurant perception explaining how UC wanted potential applicants to view them as a successful and desired organization. He didn't know if he should hire based on company culture, or if he should have focused on those who were more qualified and experienced in running a restaurant.

Due to its current size and non-franchise operations, UC did not have an HR department or role within its hierarchy. "For small businesses, one of the major challenges of rapid growth is properly managing and serving the needs of a growing workforce…how soon a company will need to hire an HR person partially depends on the sophistication of the organization" (Emerson, 2013). Partners David and Will were solely in charge of employing management positions, but were not necessarily involved with daily operations. Laura Powell was head of Corporate Development, which encompassed a broad array of duties including many HR roles, product and market phasing, and establishing strategic relationships. With David's experience as a restaurateur and Chief Operating Officer, he was uncertain how HR would benefit Urban Cookhouse as this was unfamiliar territory.

As UC mainly used word of mouth, the company website, and interaction for attracting and pursuing managers, David and Laura understood the need to implement a more effective recruitment and hiring process. With related experience during his employment with Zoe's Kitchen and extensive research before opening UC, David knew others were successful in hiring quality managers. He referenced Chick-fil-A as a successful company that encompassed some of the desired traits he wanted for UC. Chick-fil-A gave the franchised operators complete control over recruitment, hiring, training and management. Many Chick-fil-A operators began as lower level employees, moved up the hierarchy, and eventually owned their own location. David also considered an idea to provide start up financial help for future franchisees. Unfortunately, UC was not yet franchising operations and until they did, these were not necessarily viable alternatives.

With three locations opened over a three-year duration, UC had sufficient time to employ each General Manger (GM) and Assistant Manager (AM). However, there were not many known similarities between the managers from a background standpoint. Roughly 50% of the managers had customer service or sales experience, and roughly the same percentage had an undergraduate degree. David reiterated "culture" and its significance on customer service and employee satisfaction. Unfortunately, finding applicants that fit an organization's culture was difficult, and detrimental if they didn't blend within the organization.

In some cases, individuals were inadvertently interviewing if they provided exceptional service at their current place of work. Laura Hash, Crestline GM, came to UC through one of these unique cases. As a Talbot's customer service rep, Octane Coffee waitress and occasional babysitter, Laura's three-job career was interrupted with a job offer from UC. Providing incomparable customer service to David and Will as she waited their table, she was then pursued as an invaluable asset. Laura weighed her options as she had another job offer, but giving up three part-time jobs for a salaried position with a successful and growing company convinced her to make the move to UC. Will and David were able to convince Laura that she wouldn't be managing a restaurant but an enterprise. This was a unique and rare find for UC and could be utilized, but not depended on, to find future managers. David and his team knew they needed a more efficient and effective managerial recruiting process, but were treading in the foreign world of HR.

Training

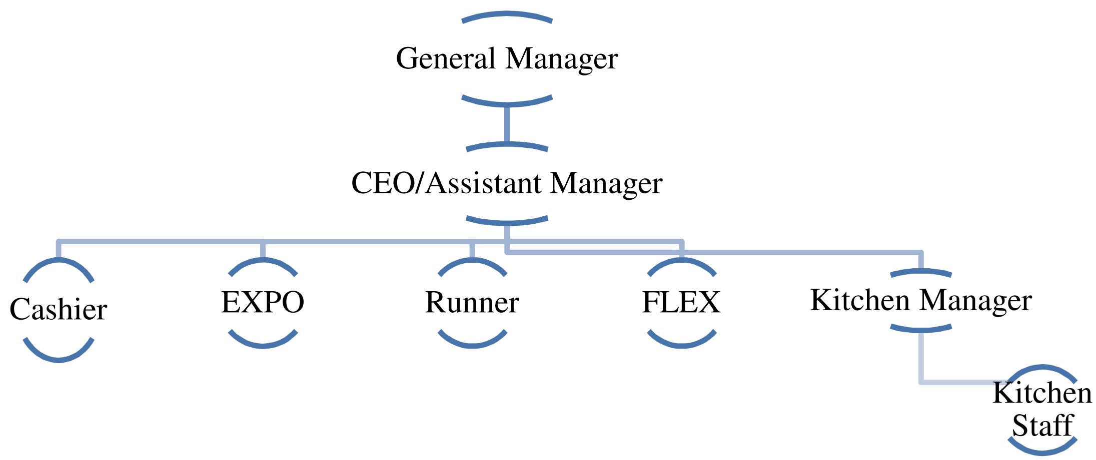
Because GMs handled daily operations and ultimately impacted the success of the company, Laura Powell stressed the importance in training managers. With plans to possibly franchise and expand outside of their current market, proper management training was a priority. UC had some processes in place with others under development. A noticeable development was the "GM Store Operations Manual." This manual included areas to recruit Front of House (FOH) and Back of House (BOH) positions, how to recruit in these areas, steps to hiring, and interview dos and don'ts. This manual was near completion and would be implemented soon after final revisions were made. This manual showed diligence and pertinent information to help managers understand their duties.

UC used a FOH and BOH "training guide" for all new hires depending on job position. Managers were responsible for completing both of the FOH and BOH "training guides," as they needed the expertise and familiarity of all job duties. Managers also completed a "shadow program" in which they observed a current manager for four weeks to learn the necessities. Laura Hash explained the shadowing concept was important and necessary, but certain aspects were lacking during her experience with this program.

Issues related to current management training centralized on feedback and structure. Laura Hash reiterated how she never received follow up or feedback. Though she conveyed this to David and Will, UC needed structure to successfully train managers for success. Shadowing was a great concept; however, without proper feedback managers were oblivious on areas needing improvement or areas excelled. UC had three locations with plans to expand. However, without proper training processes within their current market, the ability to effectively train managers for new and more geographically distant locations was troublesome. David understood a sound and solid training process was needed before penetrating other markets.

Employee Retention

Urban Cookhouse location hierarchy:



Employee retention was a significant part of any small business. In an industry with such high turnover, restaurants struggled to find methods for retaining quality managers. Urban Cookhouse did not want to be just another restaurant that saw management come and go on a consistent basis. They wanted to develop a way to not only retain quality managers, but to incentivize new, top talent to gravitate towards Urban Cookhouse. The managers of each location were salary based with opportunities for bonuses. The current method for incentivizing managers was somewhat subjective. There were factors that could be controlled, but a consistent and clearly defined system had not been implemented.

There were several key performance indicators that a restaurant must thrive in to remain profitable. One of the main components that managers could control was sales or revenue relative to last year. David stated that this was the main element of their incentive program, because most valuation methods in the industry were based off sales growth (Sales comps). The other two important factors were labor costs and food costs (food and beverage). Labor, food, and beverage encompassed around 60% of total costs. Rent, taxes, etc were out of the managers' control, and encompassed the remaining 40%. Labor costs were measured through the Point of Sale or POS system, and controlled as a percentage of sales. This related to the number of employees present on a given day. The manager was responsible for controlling the labor force by sending home and/or bringing in employees throughout the day. This was done by reacting to the events of the day in order to staff the restaurant as efficiently as possible. Sometimes managers may be caught up with other tasks and not be able to make the proper decision when necessary.

The term, "Death by a thousand cuts" from *The Art of War*, was a fitting description for how managers controlled their food costs. Mitigating excessive food costs could involve something as minute as completely peeling an entire cantaloupe to avoid discarding a small portion of the fruit, to scraping every small drop of mayonnaise out of a large container. By not properly mitigating food costs, the company was inadvertently giving away revenue. While these everyday tasks may have appeared insignificant, it could cost Urban Cookhouse thousands of dollars. The manager had be aware of how the Back of House staff members discarded items and prepared food in order to control food costs.

The factors Urban Cookhouse emphasized, regarding incentivizing their employees, were all common within the restaurant industry. Financial and operational objectives were part of most incentive programs that restaurants put into place. Financial objectives were related to profitability measures such as sales growth from the prior year and actual sales vs. budgeted sales. Operational objectives revolved around managing food and labor costs, as well as safety within the restaurant, and the quality of the food. The cost of goods sold and labor percentage of cost was often referred to as the "Prime Cost" in the restaurant industry. These operational objectives were suggested as "controllable" costs, since the manager oversaw all of the processes. The average salary of an Urban Cookhouse manager ranged from $32,000 up to $62,000, depending on the success of the location as well as the cost of living within that particular city. According to a recent study by Baker Tilly, an accounting firm, paying all salaried managers within a single restaurant location over 10% of annual sales would be unfavorable. In Urban Cookhouse's case, this referred to the GM and CEO, or assistant manager, of each location. As Urban Cookhouse mostly incentivized managers by sales figures, David understood the complications and inflations of using such system. More densely populated locations should have higher sales therefore unfittingly rewarding a manager. David understood the current system had faults, and wanted an appropriate system to accurately reward managers.

Conclusion

Urban Cookhouse proved over their first three years that they were more than capable of successfully opening and running new restaurant locations. Their brand was spreading, and their customer base continued to grow. However, David and his team knew that there were several key measures that needed to be addressed before more growth could take place. How would they attract great managerial candidates, and incentivize them in a way that would keep them with UC? How would they train new managers in newly opened locations that were farther away from company headquarters? What sort of individual should they look for in franchisee? This was a pivotal time in the short, yet extremely promising, life of Urban Cookhouse, and these decisions would be critical to UC's continued success.

URBAN COOKHOUSE
INSTRUCTORS MANUAL

Abstract

In its first few years of operation, Urban Cookhouse became a household name throughout the city of Birmingham, AL. David Snyder, founder and part owner, became very intrigued with the restaurant industry through his work and success with Zoe's Kitchen. After climbing the ladder with Zoe's Kitchen, and spending a year under world-renowned Chef Chris Hastings at Hot and Hot Fish Club in Birmingham, David developed the knowledge to cultivate a brand that he believed would appeal to everyone. This unique idea placed emphasis on wood-grilled meats, local produce, and homemade vinaigrettes, with the goals of serving quality and well prepared food. This allowed many people to experience and understand the meaning to "Buy Local, Eat Urban." After great success in its initial years, the company was looking to expand operations. A major cornerstone of Urban Cookhouse, also known as UC, was the people that represented its name. The company they wanted the right people in place to support a smooth expansion and opening of desired and hopeful new restaurant locations. There were many obstacles that were ahead relative to hiring and incentivizing the right managers, as well as identifying the right franchisee candidates. David knew that the real work had only just begun, and that the decisions that the company faced in the coming months would lay the foundation for Urban Cookhouse's growth efforts.

Case Intended Uses

The purpose of this case is to provide an undergraduate small business or entrepreneurship course with an in depth look at the importance of the human resources management function. After analysis and discussion, students should be able to identify the difficulties in properly recruiting top talent into an organization, how to retain these quality employees, and determine cost mitigating factors that drive margins within a given industry. A reading assignment on the human resources topics discussed is recommended prior to the student's evaluation of this case.

Research Methods

The information for the development of this case was derived from interviews with David Snyder, Co-Owner of Urban Cookhouse, Laura Powell, Head of Corporate Development, and Laura Hash, new General Manager of the upcoming Crestline location. Additional data used within this case came from secondary sources.

Teaching Objectives

- To understand the significance of hiring and retaining quality leadership for any business.
- To identify the primary decisions that business owners face during periods of expansion, and how to properly analyze the strengths and weaknesses of each possible choice.
- To understand the importance of a strong training program that drives employee development and business growth.

Teaching Suggestions

The class discussion should focus on the key areas outlined within the case: How does UC effectively hire quality candidates? How does UC properly train managers in new, uncharted locations? What can UC do to mitigate turnover, and retain good managers? What sort of franchising decisions does UC face in this period of growth? An understanding of the fast-casual industry is critical to the discussion of this case. Students will need to openly discuss the cost-benefit dilemma that UC faces for each of these decisions. An instructor led discussion on human resource management could precede or follow this in-class case analysis.

In preparation for this case, students are advised to study the following material or comparable:

-*Human Resource Management,* 13th edition
Robert L. Mathis & John H. Jackson

-These links provide gateways to articles and digital magazines focusing on franchises, restaurants and restaurant managers.

- How to Incentive Your Crew - QSR
- Food Service Warehouse – Restaurant Management and Operations
- Franchising World Magazine – International Franchise Association

Summary of Discussion Questions

1.) With David's growth aspirations for Urban Cookhouse and need for quality managers, how can Urban Cookhouse benefit from the development of a HR department or role?

a.) Discuss some of the necessary credentials for restaurant managers. Knowing current managerial recruiting avenues, what other areas can Urban Cookhouse utilize to recruit the most qualified managerial candidates?
b.) What impact would the implementation of an HR department have within Urban Cookhouse?
c.) Discuss how a franchised company can have more success attracting qualified managerial candidates. How have others within the industry used franchising as a tool for recruiting quality managers?

2.) Conduct a gap analysis of Urban Cookhouse's HR procedures for incentivizing management personnel.

a.) Evaluate the current procedures for retaining and incentivizing managers. How do these procedures compare to others in the limited service restaurant industry?
b.) State the deficiencies within the current incentive program limiting UC from effectively rewarding managers for their performance. Are these issues solely facing UC or the industry as a whole? Explain.

c.) Develop proposals that can bridge the deficiencies allowing UC to efficiently utilize their incentive program as a differentiator from the industry and help with their future growth opportunities.

3.) How can Urban Cookhouse be prepared, from a management training perspective, to franchise their operations? What are current training procedures for General Managers? How can Urban Cookhouse efficiently train managers for current and future locations?

Discussion Questions

1.) With David's growth aspirations for Urban Cookhouse and need for quality managers, how can Urban Cookhouse benefit from the development of a HR department or role?

a.) Discuss some of the necessary credentials for restaurant managers. Knowing current managerial recruiting avenues, what other areas can Urban Cookhouse utilize to recruit the most qualified managerial candidates?

First and foremost, a business needs qualifications for its management positions. Though all restaurants are operated differently, experience and education are essential. The candidate should know the basics from cleaning a floor to the specifics of supervising a large group of people. Respect is critical for a manager. He or she will need an understanding of financial figures, as they will monitor and control costs during daily operations. As UC is focusing on customer service and quality, the candidate's ethics should also be sound and in line with the organization itself. Lastly, the GM will be responsible for hiring and training staff, and should be comfortable with hiring and firing (Parpal). These qualifications are not mandatory, but a general manager is responsible for vital decisions that affect both employees and customers, and finding the most qualified and able candidate is crucial.

UC was successful finding its current management team, but with continued growth comes demand for quality leadership. Laura Hash's recruitment story proves there are other means to find quality managers. Using an informal interview approach, David was able to see Laura's work ethic, interaction with customers, and ability to handle stress with her being oblivious to the situation. Her recruitment was not necessarily vital to the survival or growth of UC, but David explains she is now "one of our best managers." This can be a great avenue to find managers, but is a slow and tedious process that shouldn't be depended on for manager recruitment.

Laura Powell hinted to using a "word of mouth" recruitment strategy as another avenue for employing managers. Because new hires cost time and money, utilizing employee-referrals can be extremely beneficial. "Over the past year, Ernst & Young has reinvigorated its employee-referral program, hoping to increase those hires to 50% of the total, up from 30% in the last fiscal year. While it has kept its bonus program the same—employees earn anywhere from $1,000 to $10,000—referrals tend to be better fits for the company, Ms. Altobello says, adding that they also arrive with a stronger sense of belonging" (Glazer, 2011). Though current referrals within UC do not yield a bonus, implementing such program could bring managerial candidates that "culturally fit" within the organization. However, would employees take advantage of an employee-referral program to the benefit of themselves or UC? Employees could refer friends or family that aren't necessarily beneficial or desired applicants. David would need to outline requirements for such program, and stipulations or disciplinary actions resulting from a suitable or improper referral. David stresses the importance to find and recruit quality individuals, but still struggles with an effective system to choose the best candidate.

Identifying key attributes of current managers that are desired or unwanted in future managers could help with a process that will "effectively review applications." Many businesses use their website as a means of marketing current career opportunities, and UC has embraced this avenue. That said David knows there are techniques that could increase visitor awareness. UC's website career section allows an applicant to apply for any position with a description of each, but they are unaware if the position is currently available. Without knowing availability, a desired managerial applicant may be discouraged from applying. Creating a descriptive video, marketing the newness of the job or considering a live chat or video option could bring benefits to both applicants and UC. "People want to work for a growing company, not one standing still, so if it's a new job, don't be shy, tell the world" (Leigh-Morgan). Creating detailed job descriptions encompassing the wanted attributes including necessary skills, experience, personality characteristics, and other factors important for the role can help distinguish and attract suitable applicants. Problems will still arise, as some applicants will choose to ignore the description and/or qualifications. With the June 2013 national unemployment rate at 7.6% or 11.8 million (Department of Labor, 2013), people are vigorously searching for work, and will apply for anything and everything to find employment. Effectively reviewing applications will be of uttermost importance, and have led companies to rely on newer unconventional sources.

David addressed the idea of using assessments as a means to hire. There has been a growing trend among businesses with the use of assessments, and especially in organizations focusing on "social" and "cultural" fit. Using an assessment can "bring objective information in the hiring process to make it more legally defensible and efficient… avoid the pitfalls of managers who haven't been trained in interviewing but are responsible for knowing what they should and shouldn't ask… help employers gain better insight to their candidates to improve quality of hire and reduce turnover" (Lauby, 2012). Finding the right assessment for a business is important and certain factors should to be considered. The assessment needs to be right for the situation, interpretable, valid and reliable, and easily accessible via current company technology (Lauby, 2012). Though there are numerous advantages to using an assessment, some companies are hesitant due to possible legal issues and tentativeness due to cost and time. An assessment's credibility is extremely important, and needs to be utilized as a helpful decision tool and not a determinant when hiring.

Urban Cookhouse has successfully employed a strong management team. However, with growth aspirations comes the need for management additions to their team. Current recruitment avenues are successful, but other areas are available to efficiently recruit and review managerial candidates.

b .) What impact would the implementation of an HR department have within Urban Cookhouse?

With plans to possibly franchise and open a significant number of new locations, an HR department or HR position could be beneficial. What are David, Laura and Will sacrificing with their current focus on management recruiting? These sacrifices, or opportunity costs, are foregone costs of alternatives when other actions are pursued. Implementing an HR department would allow David, Laura and Will to focus on other important areas within UC. "Investing in HR management systems at the right point in a company's growth can offer a significant return in the long run" (Emerson, 2013). David has growth aspirations for Urban Cookhouse, and having an HR department in place could be a great resource when additional managers are needed. Businesses rely on different avenues for their HR role, and the route UC utilizes will depend on their objectives.

The HR needs of an organization as well as type and size of the company determine whether the HR function is "outsourced" or "insourced." In a 2008 survey of HR professionals, only 17% of respondents expect to decrease outsourcing HR functions over the next five years. However, 54% indicated the need to maintain face-to-face contact with employees as the top reason for not outsourcing in its entirety with 28% of the respondents indicated they incurred cost increases thru outsourcing (SHRM, 2008). David expresses the importance of customer service, and this can only be achieved with quality managers. With the focus on manager recruitment, outsourcing this HR function could cause negative implications. Because the restaurant industry has such high turnover and costs associated with replacing employees, having an "in-house" HR specialist may be more beneficial.

Having an internal HR expert is especially important for small businesses as they can help a company understand the significance of human capital. "Human capital is critical because so many smaller firms have employees who perform cross-functional duties. With a smaller workforce, if just one person leaves, it leaves the company with a huge gap to fill and a potential threat to the company's profitability." In addition to human capital value, an internal HR expert can help with budget control, conflict resolution, training and development, employee satisfaction, cost savings, performance improvement, sustaining business, corporate image and steadfast principles (Mayhew). HR can identify the needs, culture, and aspects vital for a company. HR can also identify the costs associated with employing managers by using such methods like the Cost-per-Hire (CPH) Metric. The CPH Metric "is designed to measure the costs associated with the sourcing, recruiting and staffing activities borne by an employer to fill an open position in the organization." The metric encompasses both internal and external costs divided by the total number of hires within a given time period (SHRM, 2012). HR could give David the recruiting process he desires, however; though UC could benefit from a HR department or role, implementing HR functions within an organization often face numerous challenges.

Effectively adding HR to an organization requires support from management, an understanding of needs within an organization, and the availability of necessary and needed resources. HR's strategy must also be aligned with the company's vision and culture. If a business does not offer the necessary tools for HR to succeed, HR cannot be successful. Because HR does not yield tangible profit for a business, determining the value added or associated costs will be difficult. The role will take time and money to develop and implement, but could allow David, Will and Laura to have more time to focus on other important areas within UC.

Like most small businesses today, UC wants the most qualified and sound team to help them gain a competitive advantage in an extremely competitive industry. Each with its strong suits and others with their faults, opportunities are available and could help them achieve their goals.

c.) Discuss how a franchised company can have more success attracting qualified managerial candidates. How have others within the industry used franchising as a tool for recruiting quality managers?

When discussing quality and customer service, David explains people continuously go to Chick-fil-A "because they know the service will be good." When customers go to an Urban Cookhouse, he wants them to expect and receive a comparable or enhanced service. A major reason for Chick-fil-A's success is due to their franchise operations.

> **"The upfront franchise fee for a Chick-fil-A is only $5,000. Most franchise systems require net worths in excess of $500k and upfront franchise fees of $35k or more. The structure of the Chick-fil-A franchise from a business model is unique also. Chick-fil-A pays for the land, the construction and the equipment; they then rent everything to the franchisee for 15% of the restaurant's sales plus 50% of the pretax profit remaining. Operators are discouraged from running more than a few restaurants will typically take home about $100,000 a year on average from a single outlet… Truett Cathy is extremely particular in who he selects as franchise operators. He wants married workers, he would like them to have attended Christian-based relationship-building retreats and Chick-fil-A will even interview family members of prospective operators. They would like to learn more about candidates and their relationships at home. "If a man can't manage his own life, he can't manage a business" (Connor).**

Past employees currently own many of their franchise locations while many of those employees starting as part-time summer workers. Chick-fil-A is able to recruit quality and passionate managers, or other employees, knowing they could possibly own a franchise in the future. Whether this would be feasible or not for UC, Chick-fil-A has seen tremendous success, and is the major reason for their quality perception. Though successful, Chick-fil-A is constantly scrutinized due to their stringent qualification requirements. David is intrigued by Chick-fil-A's franchise operations, but expresses interest in a more unique franchise approach.

David explains his idea to provide financial assistance to future franchisees. Such assistance would center on the initial start up costs by helping franchisees acquire loans. While a great idea, this would put UC in extremely risky situations in the event the new locations dissolve operations. UC would be liable for poor financial performance of the assisted franchisees. An alternative could be a "seller finance" loan where the new franchisee makes payments to David and Will on top of franchise royalty requirements. This alternative would remove the guarantee required in David's initial idea. In the event the franchisee shows consistent poor performance, UC would regain control of the location. The franchisee must work for UC for a specified time and achieve a management position to understand daily operations, and the necessities of running an UC location. Though both concepts have their strengths, UC may not have the financial capabilities to undertake projects like these. Legal, ethical, and other implications may develop, and UC would need stringent and binding terms within contracts.

Disadvantages are prevalent when franchising operations. David wanted a franchisee that was completely devoted to their location, knowledgeable with operations and financially capable.

"A perfect example is Lenny's Sub Shop. A doctor from Tennessee opened 6-7 shops across Alabama. All but one has closed because he didn't know what he was doing. I am not going to let this happen."
-David Snyder

David's declaration actually describes most franchises today. With Chick-fil-A an exception, creating franchise operations to the specifications he warrants will be extremely difficult. The contract's legal structure will need to be well defined in turn eliminating this threat.

2.) Conduct a gap analysis of Urban Cookhouse's incentive program for managers

a.) Evaluate the current program for retaining and incentivizing managers. How do these procedures compare to others in the limited service restaurant industry?

Employee retention is a significant part of any small business. In an industry with such high turnover, it has always been tough for restaurants to find methods to retain employees. Urban Cookhouse did not want to be just another restaurant that saw management come and go on a consistent basis. They wanted to develop a way to not only retain quality managers, but to incentivize new, top talent to gravitate towards Urban Cookhouse. The managers of each location are on salary, with opportunities for bonuses. The current method for incentivizing managers is somewhat subjective. There are factors that can be controlled, but a system that is consistent and clearly defined has not been put in place.

A manager must efficiently operate a location by steering it to perform well in several key areas. Some of the main components that managers have control over are sales relative to last year, which is what is focused on the most. David states that this is the main element of their incentive program because most valuation methods in the industry are based off of sales growth (Sales comps). The other two important factors are labor costs and food costs (food and beverage). Labor, food, and beverage encompass around 60% of your total costs, according to David. Rent, taxes, and other costs of that nature are out of the managers' control, and encompass the other 40%. Labor costs are measured through UC's Point of Sale system, and are controlled as a percentage of sales. This is related to the number of employees present on a given day. The manager is responsible for controlling the labor force by sending home/bringing in employees throughout the day. This is done by reacting to the events of the day in order to staff the restaurant as efficiently as possible. Sometimes managers may be caught up with other tasks and not be able to make the proper decision when necessary.

The phrase, "Death by a thousand cuts", from The Art of War, is a fitting description for how managers control their food costs. Mitigating excessive food costs can involve something as little as completely peeling an entire cantaloupe to avoid discarding a small portion of the fruit, to scraping every small drop of mayonnaise out of a large container, to property scraping chicken salad off of the scoop before placing into onto the bread. By not properly mitigating food costs, the company is practically giving away revenue. It may not appear significant while the task is being completed, but consistently performing one or all of these tasks improperly can cost Urban Cookhouse thousands of dollars. The manager must be aware of how the Back of House staff members discard items and prepare food in order to help control food costs.

The factors that UC focuses on to incentivize their employees are all very common within the restaurant industry. Financial and operational objectives are a part of most every incentive program that restaurants put into place. Financial objectives are related to profitability measures such as sales growth from the prior year and actual sales vs. budgeted sales. Operational objectives revolve around managing food and labor costs, as well as safety within the restaurant, and the quality of the food. The cost of goods sold and labor percentage of cost is often referred to as the "Prime Cost" in the restaurant industry. These operational objectives are referred to as "controllable" costs, since the manager oversees all of the processes. The average salary of a UC general manager ranges from $36,000 up to $60,000 and$34,000 to $40,000 for assistant general managers, depending on the success of the location, and the cost of living within that particular city. According to a recent study by Baker Tilly, an accounting firm, paying all salaried managers within a single restaurant location over 10% of annual sales would be unfavorable. In UC's case, this would be referring to the GM and CEO of each location. Currently, UC is within these parameters (Baker Tilly).

b.) State the deficiencies within the current incentive program limiting UC from effectively rewarding managers for their performance. Are these issues solely facing or the industry as a whole? Explain.

UC's current incentive program is not very defined. Yes, the management team is measured on sales growth, along with food and labor costs savings, but the current incentive program can be very subjective. There is not a set structure in place to drive managers to exceed goals and thus motivate their employees to better fulfill their obligations. As UC begins to expand, they will need an incentive program in place that is consistent throughout the company, and motivates managers in a way that best benefits the locations.

Restaurants throughout the entire industry seem to struggle with this exact same issue. While most restaurants use the same criteria for gauging incentive as UC, many have a difficult time developing this into a product that is consistent, easy to follow, and motivating for managers. One particular issue that many restaurants face is how to properly reward managers for meeting these expectations without harming the flow of day to day operations. For example, if a food cost goal of 25% is set for a month, and the manager realizes that they are not going to meet that goal, they may not work as diligently knowing that they are not going to get a bonus for this task (RestaurantFunds.com 7/27). Another problem with this sort of goal is that there may not be any additional bonus included if this goal is exceeded by a wide margin. A feeling of complacency sets in once the goal is met, when in fact an even better percentage could be achieved if the manager was determined to cut his costs even further.

c.) Develop proposals that can bridge the deficiencies allowing UC to efficiently utilize their incentive program as a differentiator from the industry and help with their future growth opportunities.

One way that UC could incentivize their managers is through a "hurdle" program. A "hurdle" is simply a target number that would need to be reached by each location for the three main measurable: sales, food costs, and labor costs. David and his team can determine these numbers from recent results, or possibly by setting benchmarks to try and generate growth within a particular location. For example, if a specific location hit a certain number in sales in the month of July in the previous year, then that goal same number could be increased slightly as the hurdle to meet for this particular month and year. The same could be said for the percentage of food and labor costs. To prevent complacency, there would be a “tiered” commission system in place, so that if the location exceeded sales by certain margins, or cut food and labor costs by certain percentages that were greater than the goal they were given, they would qualify for a higher “tier”. This would give them a higher payout for the month, but would in fact benefit the restaurant as well.

The benefit to this type of system is that it has the potential to be an extreme motivator, especially for managers who are willing to put in the effort necessary to achieve these goals. It can help push managers to new heights, and their restaurant locations along with it. The drawback that can be associated with this is that managers may not completely focus on the entire restaurant’s well-being during the incentive period. For example, a manager may focus hard on keeping labor costs down, but do this at the expense of sales results and customer service. A depleted labor force in this situation will indeed keep costs down, but could possibly harm the restaurant in other areas. A balance must be met by having a program that encourages growth, but prevents the day to day operations from suffering.

Another possible scenario that would be beneficial for UC would be to incentivize managers solely on net operating profit as a percentage of sales. This puts all locations on a level playing field. Some restaurants place the majority of their focus on sales growth. While this should always be an important part of a program to reward managers, there are other ways to integrate this into a solid incentive program. Placing the main focus on net operating profit allows for managers to feel much more “in-control” of their restaurant’s success, as the measures of saving on food and labor costs are viewed as “controllable costs” throughout the industry. A specific cost savings level could be set for each month. As expected, the manager would qualify for a bonus if this level was exceeded.

To incorporate sales into the program, a “multiplier” could be factored into the manager’s bonus. This “multiplier” could be based off of how much the manager exceeds the prior year’s sales goals. It could also detract the manager’s commission if sales dropped significantly from one year to another. The multipliers could be broken up into tiers. Tier 1 would mean that the manager has met the controllable cost goal that he or she has been assigned by a given margin. If the manager meets this goal, and also exceeds their sales goals, then they would have their commission for that month “multiplied” by a set percentage. If they reach Tier 2, then that means they would have realized a great deal of success in the area of controlled costs, and would have an even greater percentage added onto their current commission check for that month. This keeps manager’s focused more on the day to day operations of the business, but still drives them to generate sales growth due to large commission possibilities if both goals are obtained.

This program carries the benefit of placing each restaurant on an equal measuring stick. In the financial industry, percentages and ratios are used to compare the health of companies across all industries. The same can be said for UC locations. As UC begins expanding out of Birmingham to larger, more densely populated cities, finding a measure such as this that can evenly compare all of the locations will be critical to retaining great managers. This type of program will also give David and his team a good picture of which managers are truly willing to go the extra mile to exceed their goals. The potential downside associated with this program is that sales may be forgotten due to the manager’s focus on operational tasks. A great manager will be able to totally encompass all of these factors. If he or she is able to do so, they should be rewarded properly for it.

3.) How can Urban Cookhouse be prepared, from a management training perspective, to franchise their operations? What are current training procedures for General Managers? How can Urban Cookhouse efficiently train managers for current and future locations?

> "How do we train managers outside of Alabama?"
> - Laura Powell

A simple and yet daunting question reveals an issue that is prevalent throughout small businesses. Most small companies cannot afford to send managers to external training programs or have an equivalent to McDonalds' Hamburger University. Most managers are thrown into their role and while some succeed, others fail miserably. As UC locations are all within the Birmingham Metropolitan area, training managers for outer market locations was never warranted. Currently managers train or develop using a "shadow program" and requirement to complete the "FOH/BOH Training Guide" with a manager's operations manual in the latter stages of development. However, with franchising becoming a strong possibility a process was needed to properly train managers for locations outside of its current footprint.

Laura Hash liked the idea of a "shadow program," and thought it was very beneficial during her training period. Like most processes, the program did have some faults. She explains that feedback was never delivered which made her lack an understanding of her strengths or weaknesses. This is why she embraced the developing operations manual, because this told her that upper management was responding to her questions and concerns. Coaching is beneficial in all industries, and spending a small amount of time over agendas or feedback can help managers gain an understanding of their progressions. Though UC is developing additional management training processes, procedures were lacking for outer market locations.

Outer market managers will have to master UC's culture in a very short amount of time. They will not have the resources readily available that local managers in Birmingham have to address questions and needs. In particular, these managers will have to master the computer system, and know it backwards and forwards. While training at a current location, this manager would need to be strictly evaluated on this system. By being able to properly operate UC's system, the manager could be able to quickly resolve technological issues that may face some of his or her employees in a much quicker manner. The manager needs to be a solid resource for employees, and mastering the computer system is part of this process. This can be achieved through rigorous testing on the system itself. The manager could need to be put into situations that generate question and concerns from employees on occasion. They need the knowledge and confidence to answer these system-related questions quickly and effectively.

Training an outer market manager will be challenging for David and his team. One effective method that can be implemented is that of a required Q&A dialogue on a weekly basis between the new manager and a "mentor". Each week, this manager will have to list out issues, questions, concerns that have come up since their last discussion, and bring them to the table. This can be done via telephone, Skype, or even in person if the locations are within a close proximity. The purpose to this is to help ensure that the new manager is actively learning in the new role, and addressing new issues that will inevitably arise over time. The benefit to this part of the training process is that the managers are staying connected with more experienced managers who may have proven advice on how to attack certain issues. This also keeps the new manager engaged in the educational part of the training process. By meeting the weekly question requirements, he or she is developing as a manger and leader by gaining knowledge that can be portrayed to employees with confidence.

Training is an issue with all industries, and having the appropriate leadership is critical for success. Effectively training GMs and AMs for unfamiliar locations will be a subject for the growth and success of Urban Cookhouse.

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