

**MGMT650B**  
**Consulting skills for managers**

# **Project Proposal**

*New Sam Hing Restaurant – Profit Regain*

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# 1 Contents

1	Contents .....	2
2	Background.....	3
2.1	Client.....	3
2.2	Company Name .....	3
2.3	Company Background.....	3
3	Objective.....	4
4	Scope .....	4
4.1	Scope of our analysis .....	4
4.2	Outside the scope of our analysis: .....	5
5	Issues .....	5
5.1	Key issues.....	5
5.1.1	Cost saving.....	5
5.1.2	Extra revenue.....	6
5.2	Issue Tree.....	6
6	Resources .....	7
6.1	Data .....	7
6.2	People we need to interview.....	8
7	High-level work plan.....	8
8	Appendix.....	8

## **2 Background**

### **2.1 Client**

Mr. Wan

### **2.2 Company Name**

New Sam Hing Restaurant

### **2.3 Company Background**

New Sam Hing Restaurant is a traditional Hong Kong style fast food restaurant located in a small street in Sai Wan for years. Despite the non high-class location, it has a very reputable brand name in the area, as the food they sell is value for money. They do not only sell normal fast food like fried rice and Guangdong dishes but also Wonton noodles and congees. The food they sell is cheap and tasty as the residents near that area suggested. People also visited the shop often due to the great variety of choices the restaurant offered.

The restaurant was setup by Mr Wan and Mr Lee 15 years ago with both shared 50% of the company. Mr Wan and Mr Lee were chefs long time ago where they both worked for the same restaurant and both of them have many years of experience in the field. The profit of the restaurant was stable for the past years with slight ups and downs especially due to the SARS period. Huge profit has not been seen due to the cheap prices.

Recently Mr Lee decided to withdraw from the restaurant and he has setup another restaurant doubling the size next to New Sam Hing Restaurant. The kinds of Food they sell are similar and Mr Lee asked a few staff from New Sam Hing to come over. Business and Profits are dropped significantly with the opening of Mr Lee's restaurant and it is crucial for Mr Wan to gain back the profit they had or they might have to close down very soon.

### **3 Objective**

With the opening of Mr Lee's restaurant, Mr Wan faced at least 20%-30% drop in revenue of New Sam Hing restaurant. Mr Wan has tried to lower the price in order to gain back the volume without succeed. In order to regain the competitiveness of New Sam Hing restaurant, our objective in this proposal is to identify how New Sam Hing can return to profit with competition next door. We will focus on short-term profit regain in around 6 months' time and long term solutions like changing the location or direction of the restaurant will not be included in this proposal.

### **4 Scope**

#### ***4.1 Scope of our analysis***

We focus on short-term profit resume and do not want to create hassles to the day-to-day business. We are looking at

- Ways to achieve cost saving through better HR management.
- Ways to achieve cost saving through better operation efficiency.
- Ways to achieve cost saving through reduction of food-related cost, delivery cost & operation cost
- Ways to gain additional income from existing customer
- Ways to gain additional income from new customers

Issues that require more than 6 months to complete are excluded in the analysis.

## **4.2 Outside the scope of our analysis:**

As mentioned above issues that required more than 6 months of work will be excluded. On top of that, below issues are excluded in the analysis as well due to the complicated nature of the issue, which required extensive researches and analysis.

- Location: Changing the location might incur a lower rental expense however moving the restaurant from one location to another will incur a lot of renovation expense. Thus the restaurant might lose the support from the old customers who are living nearby. The negative impact from loss of customers and the huge renovation cost might be more than the saving in rental.
- Salaries: No changes in salaries as staff are loyal to the company and changing the salary would affect the morale and decrease the productivity
- Capital Investment: No further large add-in of capital to be invested
- Food price: No substantial cut in food price

# **5 Issues**

## **5.1 Key issues**

We target to change the situation and assist Mr Wan in regaining profit through two ways: cost saving as well as gaining extra sales revenue:

### **5.1.1 Cost saving**

- Evaluation on minimizing labour cost through monetary cost and efficiency
- Evaluation on cost saving through improving daily operation efficiency
- Evaluation on saving in the product cost

### **5.1.2 Extra revenue**

- Ways to increase existing customers' purchase per visit
- Ways to increase existing customers' frequency of visit
- Ways to attract new customers of different needs: price, speed, taste, & service

To solve above issues, we will perform the following analysis:

- Creation of targeted P&L and test out the achievability of the identified methods
- Financial modeling on achieving various cost saving methods
- Sourcing of cheaper materials and the impact on cost
- Customer surveys on their taste, their choices and what can make to increase frequency of visits
- Real test on the restaurants in launching new products and promotions
- Interview with individual employees on their opinions in increasing efficiency and new product combinations
- Visits to other similar restaurants or restaurants in the same district and monitor what are the best practices that competitors are doing

Detailed actions are listed in the detailed work plan.

### **5.2 Issue Tree**

- As attached

## **6 Resources**

### **6.1 Data**

- Profit and loss account of New Sam Hing Restaurant
- Detailed HR expense report
- Market part time work salary index
- Original shift structure schedule
- Work time per each task of each station/ Frequency of tasks
- Monthly electricity report
- Energy saving report by energy saving appliances available in the market
- Cost of changing to energy-saving appliances
- Cost of ingredients / ready-made ingredients`
- Historical delivery frequency/location/time/consumption spending
- Cost report for popular items
- Restaurant traffic at peak and non peak hours/ seats utilization
- Cost of additional furniture/ cost of uniform
- Restaurant floor plan/layout
- Current expenses on paper boxes & cups/Market price for paper boxes & cups
- Average seats utilization/average turnover rate
- Average revenue/profit from different timeframes/ Statistics of sales per order

- Conducted customer surveys during the process
- Menu/price-list/product quality of Mr Lee's restaurant for reference

### **6.2 *People we need to interview***

- Mr Wan
- Staff in the New Sam Hing Restaurant
- Customer of New Sam Hing
- Non-visiting customers

## **7 High-level work plan**

- As attached

## **8 Appendix**

- Target P&L
- Issue Tree
- High level work plan
- Detailed work plan

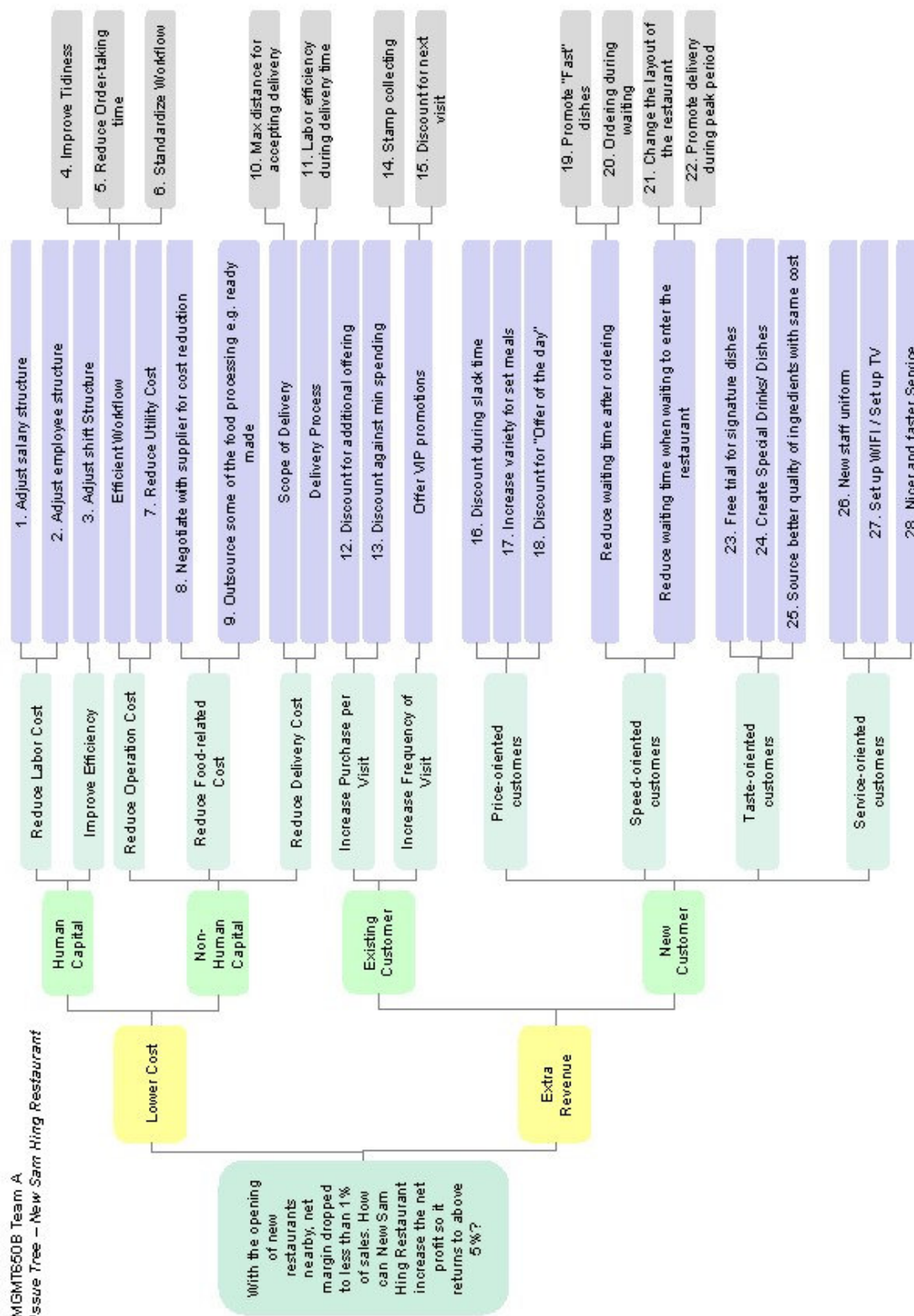


1. Target P&L and Net profit/sales ratio from major players

Current P&L				Target P&L			
		Monthly	% of sales			Monthly	% of sales
Sales		548,321		Sales		596,574	
COGS				COGS			
	Ingredients	192,157	32%		Ingredients	206,661	35%
<b>Gross Margin</b>		<b>356,164</b>	<b>60%</b>	<b>Gross Margin</b>		<b>389,913</b>	<b>65%</b>
Other costs				Other costs			
Utility				Utility			
	Electricity	34,286	6%		Electricity	33,257	6%
	Water	8,352	1%		Water	8,352	1%
	Gas	36,362	6%		Gas	36,362	6%
Rent		60,000	10%	Rent		60,000	10%
Material		4,921	1%	Material		4,872	1%
Labour		207,000	35%	Labour		196,650	33%
Misc		3,240	1%	Misc		3,240	1%
<b>Net Margin</b>		<b>2,003</b>	<b>0%</b>	<b>Net Margin</b>		<b>47,180</b>	<b>8%</b>

Comparison				Cafe de Coral		Fairwood	
		Monthly	% of sales	2009/03	2008/03	2005/09	
Sales		548,321		4,673,609	4,283,586	838,880	
COGS							
	Ingredients	192,157	35%				
<b>Gross Margin</b>		<b>356,164</b>	<b>65%</b>	<b>4,673,609</b>			
Other costs							
Utility							
	Electricity	34,286	6%				
	Water	8,352	2%				
	Gas	36,362	7%				
Rent		60,000	11%				
Material		4,921	1%				
Labour		207,000	38%				
Misc		3,240	1%				
<b>Net Margin</b>		<b>2,003</b>	<b>0%</b>	<b>540,101</b>	<b>511,953</b>	<b>72,692</b>	<b>12% 11% 2%</b>

## 2. Issue Tree



## 3. High Level Work plan

Week	Ending	Action	By Whom	Deadline
Week1	12-Sep-09	<b>1 Interview Mr Wan and understand his needs</b>	All	7-Sep-09
		<b>2 Create a project proposal</b>	All	11-Sep-09
		<b>3 Define actions to be done and the hypothesis</b>	All	11-Sep-09
Week2	19-Sep-09	<b>1 Determine final work plan</b>	All	18-Sep-09
Week3	26-Sep-09	<b>1 Gather related data from Mr Wan</b>	All	25-Sep-09
		<b>Gather external information such as electricity consumption report, external material costing report,</b>		
		<b>2 Part time worker salary index</b>	All	25-Sep-09
		<b>3 Meeting to finalize individual actions</b>	All	25-Sep-09
		<b>4 Cost analysis</b>		
		a Labour cost	Emma	25-Sep-09
		b Efficiency	Alan	25-Sep-09
Week4	3-Oct-09	c Utility	Jessica	25-Sep-09
		c material/Delivery	Minh	25-Sep-09
		<b>Interview with Mr Wan on items that need further clarification</b>	All	29-Sep-09
		<b>Interview with restaurant staff to conduct relevant analysis</b>	All	29-Sep-09
		<b>3 Interview with customers for customer surveys</b>	All	29-Sep-09
		<b>4 Progress review</b>	All	2-Oct-09
		<b>5 New sales analysis</b>		
		a Existing customers	Minh	15-Oct-09
		b Price-oriented customers	Jessica	15-Oct-09
		c Speed-oriented customers	Emma	15-Oct-09
		d Taste-oriented/Service oriented customers	Alan	15-Oct-09
Week5	10-Oct-09	<b>1 Cost analysis due</b>	All	9-Oct-09
		<b>2 First draft Dummy pack ready</b>		9-Oct-09
Week6	17-Oct-09	<b>1 Final team meeting</b>	All	16-Oct-09
		<b>2 New sales analysis due</b>	All	16-Oct-09
		<b>2 Second draft of Dummy pack ready</b>	All	16-Oct-09
Week7	24-Oct-09	<b>1 Combine all the analysis</b>	All	23-Oct-09
		<b>2 Final report due</b>	All	23-Oct-09

## 4. Detailed work plan

No.	Issue	Hypothesis	Analysis	Data Source	Person	Deadline	Status
1	Save cost by adjusting the salary structure of the staff	Save 0.5% of the total HR cost by changing 20% of the salary for every staff to the restaurant performance	1) Calculate sum that can be linked to performance 2) Modelling on how much need to pay out based on performance 3) Calculate total cost saved 1) Part time headcount requirement calculation 2) Calculation part time worker expense 3) Compare against original full time staff 4) Calculate total cost saved	1) Monthly HR expense report 2) Restaurant historical performance	Emma	25-Sep-09	Not yet
2	Save cost by changing the employee structure	Save 1% of the total HR cost by shifting 20% of the total headcount to part-time workers	1) Part time headcount requirement calculation 2) Calculation part time worker expense 3) Compare against original full time staff 4) Calculate total cost saved	1) Monthly HR expense report 2) Part time worker salary index	Emma	25-Sep-09	Not yet
3	Save cost by adjusting the shift structure	Save 1% of the total HR cost. Through reducing 10% of the full-time staff by break the shift structure from 2 to 3	1) Analysis on a effective shift method 2) Calculate the cost saved	1) Monthly HR expense report 2) Part time worker salary index 3) Original shift structure schedule	Emma	25-Sep-09	Not yet
4		Save 0.5% of the total HR cost by cutting manhour. It can be achieved by reducing extra motion at each station	1) Interview with staff 2) Motion time analysis 3) Process workflow analysis per each workstation 4) Calculate time and cost saved	1) Monthly HR expense report 2) Work time per each task of each station 3) Frequency of tasks	Alan	25-Sep-09	Not yet
5	Improve tidiness	Save 0.5% of the total HR cost by cutting manhour. It can be achieved by customer directly ordering using checklists	1) Prepare different methods of ordering 2) Measurement on each ordering method 3) Calculate time and cost saved	1) Monthly HR expense report 2) Real demonstration with time recorded	Alan	25-Sep-09	Not yet
6	Reduce order-taking time	Save 0.5% of the total HR cost by cutting manhour. It can be achieved by standardizing workflows	1) Work flow analysis (overall operation) 2) Cpk and Cp analysis for food preparation time 3) Calculate time and cost saved	1) Monthly HR expense report 2) Real demonstration with time recorded	Alan	25-Sep-09	Not yet
7a	Standardize work flow	Reduce electricity cost by 2% by changing to energy saving light bulbs and other environmental friendly appliances	1) Calculate electricity that will be saved from using energy saving appliances 2) Calculate total cost saved	1) Monthly electricity report 2) Energy saving report for environmental friendly appliances from producers 3) Cost of changing to energy-saving	Jessica	25-Sep-09	Not yet
7b	Reduce Utility cost	Reduce electricity cost by 1% by close the restaurant at 12am instead of 1am	1) Calculated energy saved due to early close 2) Calculate sales forgone due to early close 3) Determine maximized opening hours 4) Calculate total cost saved	1) Monthly electricity report 2) Revenue between different hours	Jessica	25-Sep-09	Not yet
8	Negotiate suppliers for cost reduction	Cut the material cost by 1% by sourcing cheaper paper cups and boxes	1) Source paper cups/boxes cost 2) Calculate total cost saved	1) Current cost of materials 2) Cost index from other suppliers	Mnh	25-Sep-09	Not yet
9	Outsourcing some of the food processing	Cut the ingredient cost by 0.5% by outsourcing some of the food process	1) Calculate ready-made ingredients cost if switched 2) Calculate total cost saved	1) Current cost of ingredients 2) Price of ready-made ingredients	Mnh	25-Sep-09	Not yet
10	Max distance for accepting delivery	Save 0.5% of the total HR cost by cutting manhour. It can be achieved by setting a high requirement for delivery	1) Calculate how much man hours will be saved if increase the min delivery distance 2) Determine the maximized delivery distance required 3) Calculate the total cost saved	1) Monthly HR expense report 2) Historical delivery record with distance	Mnh	25-Sep-09	Not yet
11	Labour efficiency during delivery time	Save 0.5% of the total HR cost by cutting manhour. It can be achieved by monitoring staff delivery efficiency	1) Calculate original delivery time 2) Calculate new delivery time 3) Calculate total cost/time saved	1) Monthly HR expense report 2) Real demonstration on main delivery	Mnh	25-Sep-09	Not yet
12	Discount for additional offering	Increase sales by 0.5% by offering additional item	1) Interview with MR Wan on customer preference 2) Find out items that can be produced at low cost 3) Determine the price to be charged 4) Real test in restaurant 5) Calculate the net sales gain	1) Cost report for popular items 2) Pricing/Offering from competitors 3) Real demonstration	Mnh	9-Oct-09	Not yet
13	Discount against min spending	Increase sales by 0.5% by offering discount per min spending	1) Analysis on sales per order 2) Estimate the margin level on usual orders 3) Determine how much to increase in order to qualify for a discount 4) Real test in restaurant 5) Calculate net sales gain	1) Statistics of sales per order 2) Real demonstration	Mnh	15-Oct-09	Not yet
14	Stamp collecting	Increase sales by 0.5% by offering stamp collecting	1) Analysis on sales per order 2) Determine stamps to be collected to qualified for 3) Determine discounts to be offered 4) Real test in restaurant 5) Calculate net sales gain	1) Statistics of sales per order 2) Real demonstration	Mnh	15-Oct-09	Not yet

No	Issue	Hypothesis	Analysis	Data Source	Person	Deadline	Status
15			1) Analysis on sales per order 2) Determine discount to be offered for next visit 3) Real test in restaurant 4) Calculate net sales gain	1) Statistics of sales per order 2) Real demonstration	Mrh	15-Oct-09	Not yet
16	Discount for next visit	Increase sales by 0.5% by offering discount of next visit	1) Analysis on traffic and find out slack hour 2) Determine discount to be offered for slack time 3) Real test in restaurant 4) Calculate net sales gain	1) Restaurant traffic 2) Food choice during slack time	Jessica	15-Oct-09	Not yet
17	Discount during slack time	Increase sales by 0.5% by offering discount during slack time	1) Customer survey on preferred offerings 2) Interview with Chef/Mr Wan on the most convenient one to make 3) Calculate the price 4) Real test in restaurant 5) Calculate additional sales gain	1) Offering from competitors that attract most people 2) Price of the most popular food in competitors visit now and what do they want the restaurant to offer	Jessica	15-Oct-09	Not yet
18	Increase variety for set meals	Increase sales by 0.5% by offering set meals with increase variety	1) Margin analysis on popular items 2) Calculate discount offered 3) Real test in restaurant 4) Calculate net sales gain	1) Margin for popular items	Jessica	15-Oct-09	Not yet
19	Discount for "Offer of the day"	Increase sales by 0.5% by offering discounts on daily items	1) Interview with Chef to determine fast dishes 2) Promote the fast dishes to non-customers 3) Real test in restaurant 4) Calculate additional sales gain	1) Chef's comments	Emma	15-Oct-09	Not yet
20	Promote "Fast" Dishes	Increase sales by 0.5% by promoting "Fast" dishes	1) Real test in restaurant 2) Calculate additional sales gain		Emma	15-Oct-09	Not yet
21	Ordering during waiting	Increase sales by 0.5% by allowing ordering during waiting	1) Cost of additional furnitures 2) Calculate the additional turnover 3) Calculate the additional profit gain	1) Average seats utilization 2) Average customer spending 3) Cost of additional furnitures	Emma	15-Oct-09	Not yet
22	Increase the turnover rate by adjusting the layout of the restaurant	Increase 2% sales by adjusting the layout and having 10% more seats	1) Identify the peak period 2) Determine discount offered 3) Real test in restaurant 4) Calculate net sales gain	1) Average sales per peak period	Emma	15-Oct-09	Not yet
23	Promote delivery during peak period	Increase sales by 0.5% by offering discount for delivery order during peak hours	1) Interview Mr Wan on signature dishes 2) Free trial to customers/non-customers 3) Calculate net sales gain on that dish	1) Cost of making the signature dish	Alan	15-Oct-09	Not yet
24	Free trial for signature dishes	Increase sales by 0.5% by offering signature dishes	1) Develop special drinks that can be offered 2) Calculate cost and price of the special drinks 3) Calculate net sales gain	1) Customer survey on new drinks 2) Cost of making new drinks	Alan	15-Oct-09	Not yet
25	Create special drinks	Increase sales by 0.5% through selling of new drinks with higher price	1) Interview with customer on which of the menu items need to have better ingredients 2) Source better ingredients 3) Modelling on cost and benefit analysis 4) Derive net sales gain	1) Price of ingredients from different suppliers 2) Customer surveys	Alan	15-Oct-09	Not yet
26	Source better quality of ingredients with same cost	Increase sales by 0.5% by offering better quality	1) Calculate cost of new uniform 2) Real test in restaurant 3) Calculate additional traffic during non-peak 4) Calculate average additional sales gain	1) Traffic in non-peak 2) Cost of uniform	Alan	15-Oct-09	Not yet
27	New staff uniform	Increase sales by 0.1% by using new staff uniform	1) Calculate cost of T-shirt/Woof 2) Real test in restaurant 3) Calculate additional traffic during non-peak 4) Calculate average additional sales gain	1) Traffic in Woof/TV 2) Cost of uniform	Alan	15-Oct-09	Not yet
28	Setup Woof/TV	Increase sales by 0.1% by setup Woof/TV	1) Educate staff to use certain wordings when dealing with customers 2) Real test in restaurant 3) Calculate additional traffic during non-peak 4) Calculate average additional sales gain		Alan	15-Oct-09	Not yet
	Nicer and faster service	Increase sales by 0.1% by being polite/friendly			Alan	15-Oct-09	Not yet