

MGMT650B
Consulting skills for managers

Project Proposal

New Sam Hing Restaurant – Profit Regain

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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

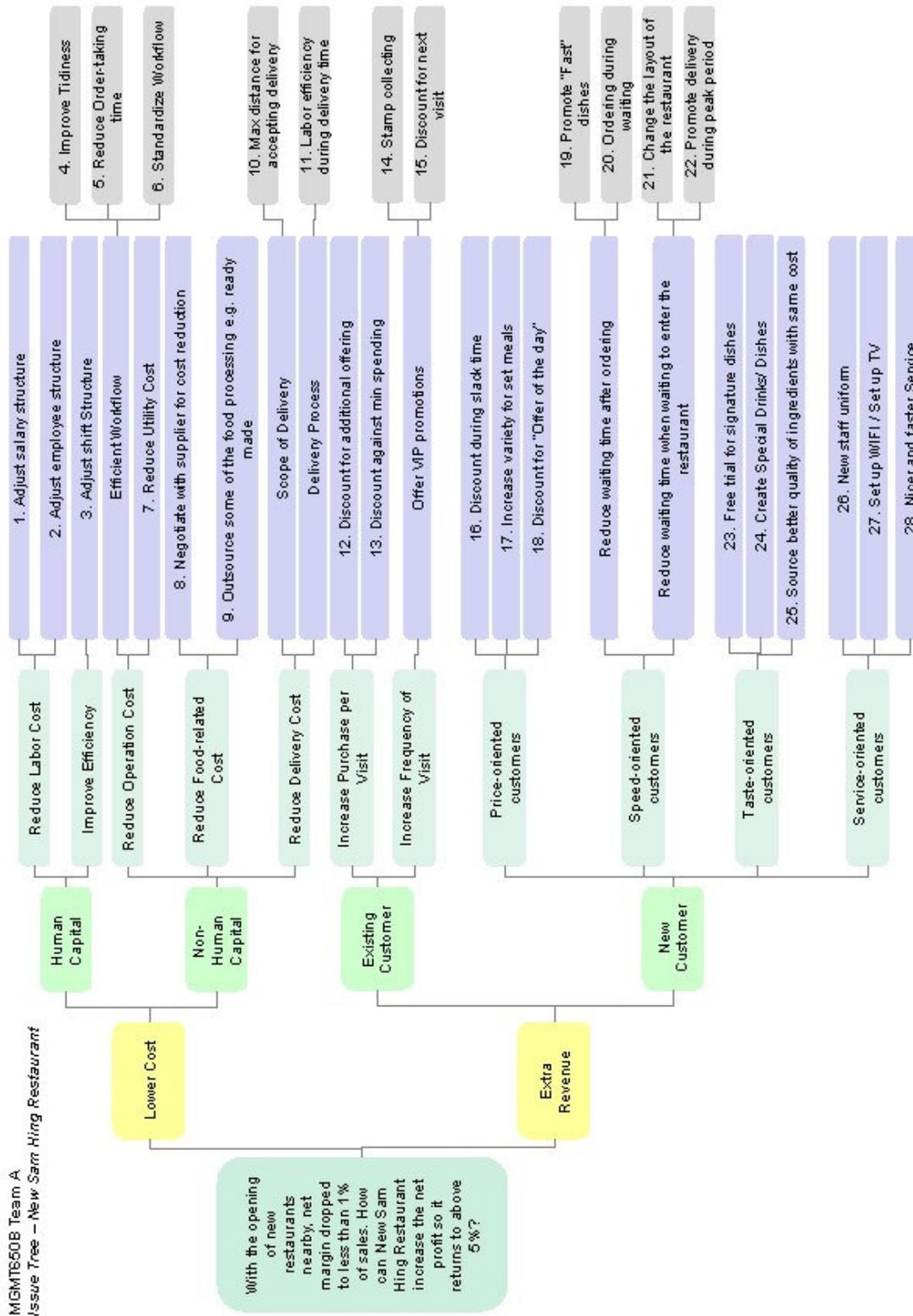
1. Target P&L and Net profit/sales ratio from major players

Current P&L			
		Monthly	% of sales
Sales		548,321	
COGS			
	Ingredients	192,157	32%
Gross Margin		356,164	60%
Other costs			
Utility			
	Electricity	34,286	6%
	Water	8,352	1%
	Gas	36,362	6%
Rent		60,000	10%
Material		4,921	1%
Labour		207,000	35%
Misc		3,240	1%
Net Margin		2,003	0%

Target P&L			
		Monthly	% of sales
Sales		596,574	
COGS			
	Ingredients	206,661	35%
Gross Margin		389,913	65%
Other costs			
Utility			
	Electricity	33,257	6%
	Water	8,352	1%
	Gas	36,362	6%
Rent		60,000	10%
Material		4,872	1%
Labour		196,650	33%
Misc		3,240	1%
Net Margin		47,180	8%

Comparison				Cafe de Coral		Fairwood
				2009/03	2008/03	2005/09
		Monthly	% of sales			
Sales		548,321		4,673,609	4,283,586	838,880
COGS						
	Ingredients	192,157	35%			
Gross Margin		356,164	65%	4,673,609		
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%			
Net Margin		2,003	0%	540,101	511,953	72,692
				12%	11%	2%

2. Issue Tree



3. High Level Work plan

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

4. Detailed work plan

No. Issue	Hypothesis	Analysis	Data Source	Responsible 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) 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) 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 manhour. It can be achieved by	1) Monthly HR expense report 2) Part time worker salary index 3) Original shift structure schedule	Emma	25-Sep-09	Not yet
4	Improve tidiness	Save 0.5% of the total HR cost by cutting extra motion at each station	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	Reduce order-taking time	Save 0.5% of the total HR cost by cutting directly ordering using checklists	1) Monthly HR expense report 2) Real demonstration with time recorded	Alan	25-Sep-09	Not yet
6	Standardize work flow	Save 0.5% of the total HR cost by cutting manhour. It can be achieved by	1) Monthly HR expense report 2) Real demonstration with time recorded	Alan	25-Sep-09	Not yet
7a	Reduce utility cost	Reduce electricity cost by 2% by changing to energy saving light bulbs and other environmental friendly appliances	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	Negotiate suppliers for cost reduction	Reduce electricity cost by 1% by close the restaurant at 12am instead of 1am	1) Monthly electricity report 2) Revenue between different hours	Jessica	25-Sep-09	Not yet
8	Outsourcing some of the food processing	Reduce electricity cost by 1% by close the restaurant at 12am instead of 1am	1) Monthly HR expense report 2) Real demonstration with time recorded	Alan	25-Sep-09	Not yet
9	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) Monthly HR expense report 2) Historical delivery record with distance	Mnh	25-Sep-09	Not yet
10	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) Monthly HR expense report 2) Real demonstration on main delivery	Mnh	25-Sep-09	Not yet
11	Discount for additional offering	Increase sales by 0.5% by offering additional item	1) Cost report for popular items 2) Pricing/Offering from competitors 3) Real demonstration	Mnh	9-Oct-09	Not yet
12	Discount against min spending	Increase sales by 0.5% by offering discount per min spending	1) Statistics of sales per order 2) Real demonstration	Mnh	15-Oct-09	Not yet
13	Stamp collecting	Increase sales by 0.5% by offering stamp collecting	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	Mihh	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 by adjusting the layout of the restaurant	Increase sales by 0.5% by allow 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	Promote delivery during peak period	Increase sales by 0.5% by offering discount for delivery order during peak hours	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	Free trial for signature dishes	Increase sales by 0.5% by offering signature dishes	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	Create special drinks	Increase sales by 0.5% through selling of new drinks with higher price	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	Source better quality of ingredients with same cost	Increase sales by 0.5% by offering better quality	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	New staff uniform	Increase sales by 0.1% by using new staff uniform	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	Setup WiFi/TV	Increase sales by 0.1% by setup WiFi/TV	1) Calculate cost of TV/WiFi 2) Real test in restaurant 3) Calculate additional traffic during non-peak 4) Calculate average additional sales gain	1) Traffic in WiFi/TV 2) Cost of uniform	Alan	15-Oct-09	Not yet
28	Nicer and faster service	Increase sales by 0.1% by being polite/friendly	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