

Case 1B

Type: Profitability



Problem Statement:

Your client is a high-end restaurant in Khan Market, Delhi. Their profits have been declining for the past 2 months. Identify the root cause.

<p>Your client is a high-end restaurant in Khan Market, Delhi. Their profits have been declining for the past 2 months. Identify the root cause.</p>	<p>Alright. Dine-in orders would depend on the number of tables in the restaurant, average occupancy and average order value. A decline can be due to a decline in either or all of these. Do we know what's the case?</p>
<p>I would like to start with a few preliminary questions. What kind of cuisines does it serve? Is it dine-in only? Should I consider the COVID scenario? Are there any competitors in the locality? Have they faced similar decline?</p>	<p>The total number of tables in the restaurant has remained same. The average occupancy has remained same. The average order value (AOV) has increased.</p>
<p>Consider a pre-COVID scenario. The restaurant serves Italian cuisines. We offer dine-ins, takeaway and delivery orders. We do have several direct and indirect competitors in the locality, however, none of them has faced a similar decline.</p>	<p>Oh. Interesting. AOV (Average order value) can be expressed mathematically as Total revenue in a day/Number of orders in a day. Now since the AOV is increasing, it implies that either Total Revenue in a day is increasing or that number of orders is decreasing. Since, the profits are declining, and reduced revenue is one of the contributors, it is clear that the number of orders/day has declined. Combining these two, we infer that implies that either we are serving larger groups or premium clients. Do we have any information on this?</p>
<p>Okay. I would like to start the analysis now. Profits is basically Revenue minus costs. A decline in profits can be due to a decline in revenues, an increase in costs or a combination of both. Do we know what is happening?</p>	
<p>It is a combination of both.</p>	
<p>Sure. I would like to start with the revenue side if that's fine.</p>	<p>Yes, we have started serving larger groups now. In fact, to accommodate larger groups, we have clubbed some of our smaller tables to make room for more people on the same table.</p>
<p>Go ahead.</p>	
<p>Revenues would be a sum of the three kind of orders. Have we faced a decline in all three or a particular segment?</p>	<p>This would have decreased the number of tables for couples/smaller groups. Have we seen a decline in these customers?</p>
<p>Only dine-in revenues have declined.</p>	

That's right. The number of couples/smaller groups visiting the restaurant have declined sharply.

Alright. Since our orders would have become smaller due to falling demand, the discounts would have reduced. Hence higher costs. Is it the reason?

I think we have arrived at the root-cause for the revenue decline. Should I move to the costs side?

Right. We can close the case here.

Sure. Go ahead.

Costs can be divided into the following – variable costs (Raw material costs, cooking costs, servicing costs, billing costs) and fixed costs (Rent, Utilities and Salaries). Do we have any information on what has increased?

The raw material costs have increased.

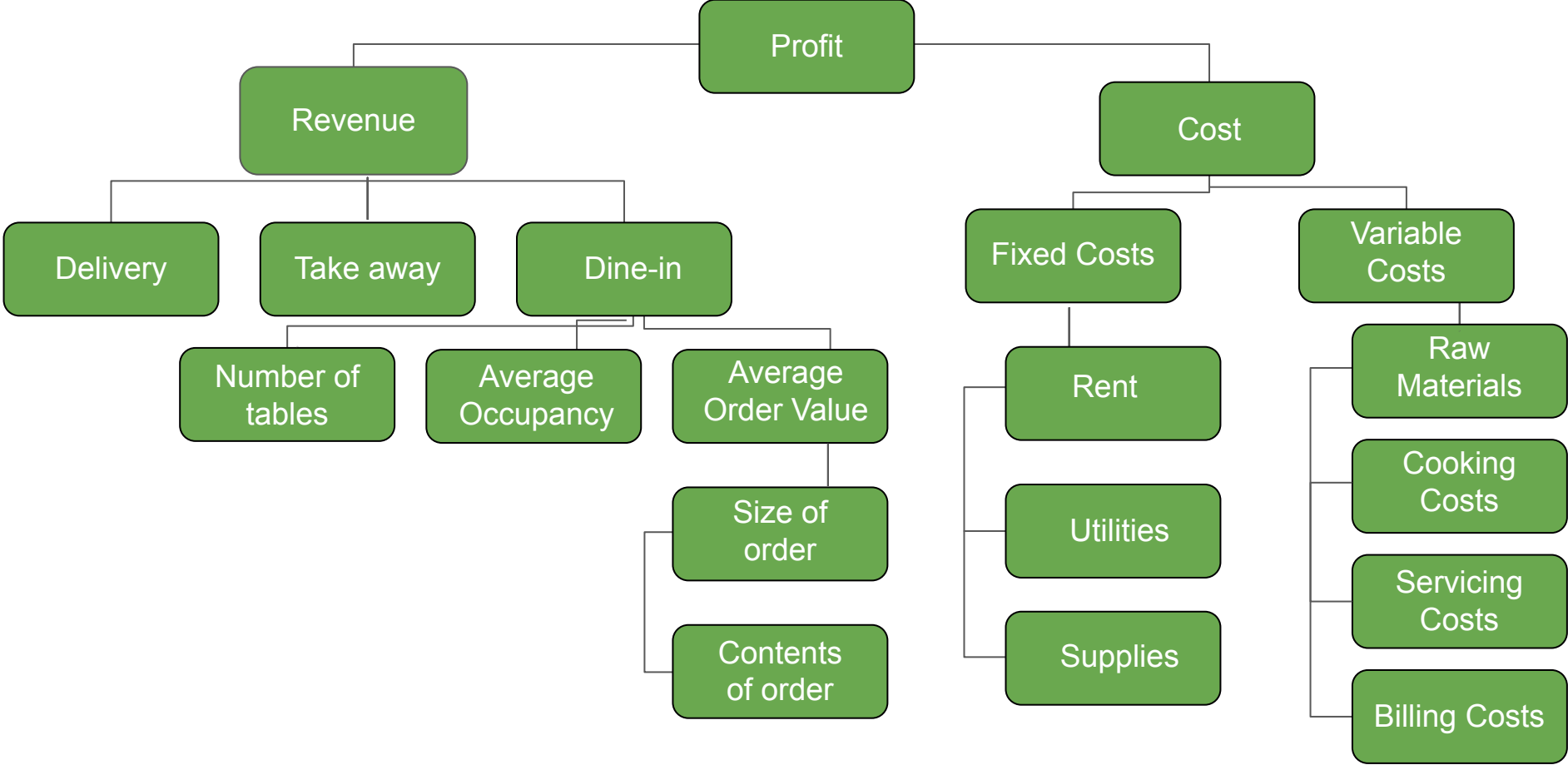
Interesting. Despite a lower raw material consumption, our costs have increased. Have we changed the supplier? What is our arrangement with the supplier?

No, we haven't changed the supplier. Our supplier provides all raw material every morning. He offers additional discount for larger orders.

SCRIPT KEY

SCRIPT KEY	
Interviewee/Candidate	
Interviewer	

PROFITABILITY FRAMEWORK



QUALITATIVE INFORMATION

Case Background:

A high end restaurant is facing a decline in their profits due to a decrease in revenue and increase in costs.

Case Facts:

1. Problem since 2 months.
2. A high-end restaurant in Khan Market
3. Visible decrease in revenue and increase in costs.
4. Decline in dine-in revenues.
5. Number of smaller groups/couples visiting to dine in decreased.
6. Supplier provides additional discount on larger orders.

CLARIFYING ANSWERS TO BE PROVIDED ONLY WHEN ASKED BY THE INTERVIEWEE

<u>Interviewee</u>	<u>Interviewer</u>
What kind of cuisines does the restaurant serve?	Italian
Does it permit dine-in only?	No. It offers dine-in, takeaways and delivery orders.
Are there any competitors in the locality? If yes, then have the competitors faced a similar decline?	Yes, we have both direct and indirect competitors. No, they haven't faced any such decline.
Should I consider the pre-COVID scenario?	Yes.

TIP: USE THE PROCESS OF ELIMINATION

FOR THE QUESTION: Costs can be divided into the following – Variable costs (Raw material costs, cooking costs, servicing costs, billing costs) and fixed costs (Rent, Utilities and Salaries). Do we have any information on what has increased?

SUGGESTION:

Instead of asking the interviewer about which one of these is the reason, it is better to follow an elimination method. If fixed costs (for that particular locality) were to change, they would change for all the players in the industry. This means all restaurants would have faced a decline in profits. However, since this decline in profits is only experienced by our client, we can eliminate this. Do we have any information as to which particular variable cost is leading to a decline in profits?

RECOMMENDATIONS

Problem Identified	Recommendations
1. Decrease in number of smaller groups/couples	<ol style="list-style-type: none">1. Increasing the table turnover rate: This can be done by ensuring orders are instantly sent to the kitchen and prepared orders are served to the guests promptly.2. Promotional offers/deals for smaller groups/couples will encourage existing customers to visit more often and new customers to try out the restaurant.
2. Increase in costs for raw materials	<ol style="list-style-type: none">1. The interviewee may point out that both the problems are interlinked (since it is mentioned in the case study itself that since the client has stopped , and solving the first problem will automatically affect the latter. This is because the supplier offers discounts on larger orders, which is not possible due to the first problem identified. However, he/she can suggest steps to be taken for immediate relief such as: Avoid wastage of raw materials.

GLOSSARY

Average order value (AOV): Average Order Value is an ecommerce metric that measures the average total of every order placed with a merchant over a defined period of time.

Table turnover ratio: To calculate the table turnover rate, **you have to divide the number of parties by the number of tables.** Naturally, your goal is to serve as many parties as possible within the allotted period without sacrificing quality.