



# Restaurant (Nonprofit)

## BUSINESS PLAN

M C M URPHY ' S G RILL

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*St. Patrick's Center  
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April 1994*

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*This business plan has not been disguised in any way; references to locations, people, and products are real, not fictional. McMurphy's seeks to give job skills to mentally ill homeless people in order to help them. The contributor has asked that those interested in forming a business of this type contact St. Patrick's Center with their questions during regular business hours prior to instituting any of the suggestions in the plan. **Note** : A number of Appendices to which the plan refers were deliberately excluded due to privacy considerations. This plan has been re-printed from the first volume for the purpose of comparison with its revision. (See next plan.)*

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## EXECUTIVE SUMMARY

Opening its doors on December 3rd, 1990, McMurphy's Grill has brought a little bit of earth-quaking to the St. Louis community. While operating as a competitive restaurant, McMurphy's has set about the task of making people without homes, but with diagnostic psychiatric labels, into food servers and cooks. This business plan primarily focuses on the operational aspects of McMurphy's Grill, defining McMurphy's as two distinct, but interrelated functional organizational units: one being the restaurant business and the other being the employment training component. A strategic plan is presented for each component and the strategic direction which this operation as a whole should take to achieve growth will be outlined.

With an appealing product, both in terms of its mission and its fare, McMurphy's Grill certainly has an added

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advantage over its competitors. Located at Eleventh Street and Lucas in downtown St. Louis, McMurphy's, as a restaurant, has been favorably noted by restaurant critics and customers alike. Its mission, of training mentally ill homeless men and women, certainly sets it apart from any other competitive restaurant in the St. Louis area.

The success of this operation depends a great deal on the cohesiveness of the two functional organizational units as well as an aggressive marketing strategy. With this in place and a little "luck of the Irish", McMurphy's will likely reach its optimistic sales goals. If the Celebrity Hosts promotion, a newly initiated program, which will be described in more detail in the Strategic Plan, is any indication, a 30 percent increase in sales over fiscal year 1994 is not unrealistic.

Most of us can only imagine the obstacles people who are homeless and mentally ill must overcome to hold down a job, much less one in the restaurant business. Yet, this innovative employment training program has helped to ease the transition for many. From life on the streets to independence, McMurphy's goals are enthusiastic to say the least.

Perhaps the most compelling concern of this type of endeavor lies with the ability to balance both sides of the coin — the mission and the business. An organization's focus on its prime business. The delicate balance of maintaining the effectiveness and success of each component requires extra care and effort. However, with a well defined strategic plan, the community support afforded St. Patrick Center, a myriad of volunteers, and a staff with a vision — this tightrope can be successfully maneuvered.

## THE COMPANY AND THE CONCEPT

While operating as a competitive establishment, McMurphy's prime focus is on teaching homeless individuals, many suffering from mental illness, skills in food preparation as well as the restaurant service.

McMurphy's has enjoyed favorable reviews for both its food and its mission. The 80-seat restaurant provides its customers with wholesome, hearty meals and a comfortable, pleasant atmosphere, while its trainees learn on-the-job skills in self-sufficiency. Primarily drawing customers from the downtown lunch business crowd, McMurphy's has a unique advantage in that it also draws people from other areas because of its mission. To support its favorable status, in both categories, McMurphy's Grill is proud to have been the 1992 Winner of the Midwest Living Magazine Hometown Pride Award and Hospitality Awards finalist for the Restaurant of the Year — Casual category sponsored by the Convention and Visitors Commission. In addition, McMurphy's Grill has been awarded grants from the Share Our Strength Foundation for its efforts in training for self-sufficiency.

Owned and operated by St. Patrick Center, a multi-service nonprofit agency providing a variety of services for homeless and low-income people in St. Louis, this innovation transitional employment program has provided an opportunity for sixty-seven men and women, thus far, to learn valuable employment skills. St. Patrick Center is located at 1200 North Sixth Street, on the near north side of downtown St. Louis. Dedicated in 1983, the Center provides opportunities for homeless and low-income persons to attain self-sufficiency and dignity through programs which effect permanent solutions, including education, counseling, job training, employment, housing assistance, and substance abuse rehabilitation. Special emphasis is placed on those who experience mental illness or chemical dependency.

The concept of a restaurant operation stemmed from a restaurant in Rock Island, Illinois which is run by mentally ill employees. By owning their own business, which serves as a transitional training program, St. Patrick Center is able to provide the flexibility required to allow the clients to move at their own pace.

With a generous grant from McDonnell Douglas Employees Community Fund and the McDonnell Douglas foundation as well as contributions from other private and corporate sources, McMurphy's Grill became a reality. The Pasta House Company provided the management expertise and restaurant operations knowledge in addition to numerous donations of restaurant fixtures and supplies. Through the Neighborhood Assistance Program of the State Department of Economic Development, McMurphy's was able to receive free rent for



much of its existence. In 1993, Paric Corporation, the owners of Lucas Place, the building which houses McMurphy's Grill, donated the entire 3-floor building to St. Patrick Center. The top two floors are constructed for office space. This innovative project is truly a community endeavor.

The operation of McMurphy's Grill has provided a challenge to St. Patrick Center, whose primary expertise has been in the social service arena. In addition, McMurphy's is only one of thirteen programs operated by St. Patrick Center and thus does not have the concentrated effort that many small restaurant operators employ. Changes in administration at St. Patrick Center, especially at the Executive Director's level, along with changes in the management at McMurphy's has significantly affected the operations of the restaurant.

Under the direction of St. Patrick Center's new Executive Director and the Center's Board of Directors, efforts are underway to develop a long-range strategic plan for the entire agency along with establishing better methods to measure program effectiveness. This business plan will provide the long-range strategic direction for this particular operation, providing target measurements and goals for the business component as well as the employment training component. In addition, this operational plan will help to define management responsibilities, controls and reporting expectations of each component. The strategic plan will also help ensure consistency of operation, despite personnel changes, within each component as well as for the entire McMurphy's Grill operation.

## THE INDUSTRY AND MARKET ANALYSIS

McMurphy's Grill falls into two industry classifications. As a competitive restaurant, McMurphy's Grill falls into the foodservice industry. As a facility which provides employment and training for mentally ill homeless persons and those recovering from substance addictions, McMurphy's can also be classified among other vocational rehabilitation programs.

### The Foodservice Industry

#### Description of Product Category

Restaurants are the largest part of the U.S. foodservice industry and according to the National Restaurant Association. They "had an estimated sales of \$255 billion in 1992." Fuller-service stand alone restaurants, the category which would include McMurphy's, accounted for "32 percent of all foodservice sales in 1992."

The characteristics of most limited menu tableservice restaurants, of which McMurphy's is a part of, include:

- 62.7 percent of limited-menu tableservice restaurants are single units (independent).
- 46.3 percent of these restaurants have a sales volume under \$500,000.
- Over 65 percent serve both food and beverage.
- The average check per person is usually under \$10.00.
- The average daily seat turnover was 1.8.

#### The Size of the Market

The foodservice industry is highly fragmented, thus making it an extremely competitive industry. This industry continues to be dominated by small businesses as is evidenced by "average unit sales of \$429,000 reported by tableservice restaurants..." McMurphy's Grill has experienced, thus far, a much lower unit sales volume than the average. This is in part due to the limited time McMurphy's is open on a daily basis. Lack of a comprehensive marketing strategy has also had an impact upon sales.

The foodservice industry continues to experience healthy growth patterns. The National Restaurant Association forecasts an increase of 5.6 percent. Sales for Eating and Drinking places for the City of St. Louis are much higher than for the state as a whole. Total retail sales for the City of St. Louis, of which 18.7 percent are from



Eating and Drinking establishments, is expected to increase 45.3 percent over 1992 sales by 1997. With this growth pattern, along with an aggressive marketing strategy, McMurphy's has the potential for significant increases in sales over the next three years.

McMurphy's is located in the extreme northwest section of the downtown core district. Thus, this geographic area represents a huge potential market for McMurphy's lunch business, box lunches, and business functions.

### Consumer Attitudes and Demographics

Because McMurphy's is located in the core downtown business district, comprised mainly of white-collar professional persons, its ability to attract a lunch crowd is greater than for many other locations not in the downtown area. Thus, there is a significant potential market for McMurphy's services. It is also important to note that, "Consumers are spending 52 cents out of every dollar at restaurants and bars. This shift reflects the fact that there are more women in the work force and that convenience has become a major decision factor."

McMurphy's Grill has the added attribute in that dining at McMurphy's brings the satisfaction of helping people become self-sufficient. While fast-food operations are marketed as "value" deals, restaurants that are moderately priced, like McMurphy's, are more likely to be considered an overall value by the consumer.

### The Competition

In terms of the business aspect, McMurphy's Grill certainly has a competitive edge that no other restaurant in the St. Louis community has. In addition to providing a quality meal and friendly service, this operation also offers its customer the satisfaction of knowing that they have contributed to helping someone achieve self-sufficiency. While other restaurant operations can compete more effectively by offering lower prices or boasting of quick service or providing a more elaborate atmosphere, none can compete directly with McMurphy's Grill's unique attribute — its mission.

McMurphy's large bright dining area, appealing decor, warm atmosphere, friendly service and homey meals set it apart from many of its competitors. It is also the only restaurant with outside seating, an important consideration among office workers on warm days. After being cooped up in an office all morning, people look for ways to get outside and enjoy the fresh air. The management is making plans to develop the small plot of land in front of the restaurant into a garden, which will add to the attractiveness of eating outside. It is also the only one with celebrity hosts (to be described in the Marketing Plan).

In regard to the private function market, competition is also extremely tight. Eleven facilities, located in the downtown area, advertise under Banquets/Catering in the Yellow pages. Seven are hotels, three are restaurants and one is a non-traditional facility which has a facility rental of \$750.00. This nontraditional facility will be eliminated in the analysis because it competes in an entirely different arena. McMurphy's can compete very effectively in terms of price as it has one of the lowest priced facilities for both a sit down meal and open bar event. Free parking and the privacy of being the only ones in the establishment are other advantages afforded customers of McMurphy's evening functions. Its major limitation is in its capacity limits. It certainly cannot compete with the hotels in that regard. McMurphy's will need to highlight these attributes in its advertising and promotional programs.

McMurphy's is in the position to gain the support of many of its suppliers when promoting a special event or day. This is in large part because of McMurphy's overriding goal of employment and training for people working toward self-sufficiency. Unlike any of its competitors, McMurphy's Grill is a member of the following organizations which gives it credibility as a restaurant and networking capability:

- Downtown St. Louis,
- Inc. Missouri Restaurant Association
- St. Louis Convention & Visitors Commission

Only members of the St. Louis Convention and Visitors Commission will have direct access to scheduled



conventions and can directly market to them. Thus McMurphy's can directly target any potentially large conventions through direct mail as well as publicly via material at the Convention Center.

## Transitional Training/Employment Industry

### Description and Size of Industry

McMurphy's Grill does not focus on individuals only with mental illness, which alone complicates a person's ability to function independently within the community, but those who are also homeless. It is difficult to assess the number of people who are homeless and mentally-ill. According to the National Resource Center on Homelessness and Mental Illness, "an estimated one-third of single, homeless adults have severe and disabling mental illness, and that as many as half of homeless persons with mental illnesses also have alcohol and/or drug problems." Many are unemployed and have few or no employment skills that will enable them to earn a living wage. Vocational Rehabilitation Programs and other related agencies tend to inhibit the participation of this population due to their many regulations and lack of models which meet the specific needs of this population.

The continuum of services provided by St. Patrick Center for individuals with mental illness and substance addictions, of which McMurphy's Grill is a key component, is consistent with the psychiatric rehabilitation model. Current research points to the success rate of psychiatric rehabilitation as an effective and cost-efficient treatment for persons with serious and persistent mental illness. The psychiatric rehabilitation model emphasizes activities which are integrated into the normal life of the individual and the community.

### Competition

In St. Louis, two other agencies are recognized for their efforts, at the community level, with people suffering from mental illness, Independence Center and Places For People also utilize this general psychiatric rehabilitation model. The need for psychiatric rehabilitation programs is far greater than what the existing programs in St. Louis can address. McMurphy's Grill has provided training and employment skills, along with the other supportive services offered by St. Patrick Center, for sixty-seven individuals since the inception of this program in December of 1990. Thirty percent have been employed in the community in a variety of positions. A total of 36 percent, which includes the 20 individuals employed, have moved into more stabilizing situations. Places for People reports that "21 percent of all clients surveyed worked at sometime during the year examined (July 1, 1992 through June 30, 1993)." Independence Center was not able to track clients beyond the initial supported work environment and so statistics are not available. Thus, from the available data, McMurphy's Grill appears to be the most effective in terms of permanent solutions.

In comparing the efficiency of McMurphy's Grill Employment Training component with other similar programs, in terms of the cost of the training program, McMurphy's is certainly competitive. The Fountain House program, of which Independence Center is a branch, reports that their cost of training is \$30.00 per day, per client. McMurphy's Grill projections for 1995 indicate that the cost of training will be \$21.00 per day, per client. By 1997, this number will be significantly reduced as a result of the operating profit from the restaurant business which will be used to offset the training portion of these costs. Appendix B presents this analysis.

There is very little competition among providers of programs for the mentally ill homeless. All providers agree that there is no competition for clients/members. In fact, most would agree that there are more clients than can be served by the existing programs. The two other providers work cooperatively with St. Patrick Center in an effort to deal more effectively with this population. Information and ideas are shared, and collaborative efforts are organized.

The only source of competition is in terms of funding. However, even here the competition is minimal. Independence Center and Places For People rely heavily on the State Department of Mental Health for some of their other programs, McMurphy's Grill is strictly funded through corporate grants and private contributions.





Except for Neighborhood Assistance Tax Credits through the State Department of Economic Development which has been used to offset rental costs at the outset and to help facilitate the contribution of the building which houses McMurphy's Grill, no government funds are used in the operation.

## STRATEGIC PLAN

McMurphy's Grill houses two functional organizational units. Each is viewed as distinct, but interrelated. The Restaurant Business component operates to employ persons from the second functional unit, the Employment Training component.

Because of the distinct nature of each component, separate strategic plans have been developed. The close integration of these two units requires a third step which links the two and provides operational guidelines which assist in the efficient and effective management of McMurphy's Grill.

### McMurphy's Grill: The Business Unit

**Mission:** To maintain a viable business operation in order to employ participants of the Employment Training Program.

### Description of Product Services

#### Lunch Business

McMurphy's offers three primary services. First, McMurphy's Grill is a full-service limited menu restaurant located in downtown St. Louis. It is open from 11:00 a.m. to 3:00 p.m. and serves a hearty lunch of traditional American cuisine, with an Irish flair, at a modest price (prices on the menu range from \$3.00 to \$7.00). The menu, while limited, offers a wide range of soups, sandwiches, salads, entrees, plus daily specials. By offering moderate prices and reasonably quick service (a customer can be in and out within 60 minutes), McMurphy's is attractive to those individuals who like a home-cooked meal, but who are limited somewhat by time. In order to attract more of the business community and improve on McMurphy's "value" image, the menu has been revised. The changes reflect both a surface change in terms of design, but also adds side dishes to some of the entrees. This makes the meals more appealing to the value-oriented consumer.

The same homey, tasty meals are available for carry-out as well, which can be phoned in or faxed prior to being picked up. Takeout remains the driving force behind industry growth and continues to offer expansion opportunities for foodservice operators. Thus, it is extremely important that the carry-outs continue to be emphasized in the marketing efforts since the trend in lunch traffic is away from long lunch hours.

Its appeal as a restaurant have been favorably noted by restaurant critics and customers alike. The large bright dining area, appealing decor, warm atmosphere and homey menu make McMurphy's a far superior dining experience than most of its nearest competition. Because McMurphy's Grill falls into the "moderate" price range, it is considered more of a value by the customer than fast-food operations or those establishments whose price per person is over \$10.00.

#### Box Lunches

Box lunches are another service available from McMurphy's Grill. For a reasonable price of \$6.50, McMurphy's box lunch menu offers a variety of sandwiches, salads and combo's for business and organizational meetings. The current box lunch menu has previously only included sandwiches. In order to be more attractive to the business community, McMurphy's box lunches now include more options. Recommendations for these changes came from people in the business community whose firms are potential customers. Delivery of both the box lunches and the carry outs is a must in this industry. McMurphy's currently



delivers box lunch orders of 10 or more. In the near future, McMurphy's will need to establish a full delivery service for carryouts as well as box lunches.

Lunch sales, including box lunches, have represented approximately 80 percent of total sales. Box lunches have represented less than one percent of the total sales until in March of 1994 when sales for box lunches skyrocketed because of one very large order. For the first quarter of 1994, box lunch sales represented 5 percent of the total sales and lunch business represented 78 percent.

### Private Functions

The restaurant is also available for private functions every evening and on weekends. Cocktail parties, hors d'oeuvres and full-service dinners are offered. Prices for a cocktail party range from \$7.95 per person (for up to 3 hours of open bar) to \$8.95 per person (for 4 hours or more). Hors d'oeuvres prices range from \$4.95 per person to \$8.95 per person, depending upon the selection of options. Full course meals range from \$11.50 per person to \$16.50 per person. Functions with personalized menu items are also welcomed, but prices will vary with items requested. For the first quarter of 1994, sales in this area represented approximately 17 percent of total sales.

### Target Customer

The characteristics of McMurphy's customers differ whether we are discussing the lunch business, the boxed lunch business or the party business. Each has its own unique characteristics. However, they all encompass supporters of St. Patrick Center as well as individuals and groups who are unfamiliar with the restaurant's primary mission.

### Marketing Plan

The overall goal of McMurphy's Grill marketing strategy is to increase the number of employment training opportunities in order to expand the number of clients participating in and moving through the program. In order to accomplish this goal, however, the restaurant component must be a viable operation so as to employ persons from the employment training component. The following objectives have been identified by management as targets:

- Begin realizing an operating profit by the end of 1997 by:
- Increasing lunch time customer traffic by 40 percent over a three year period.
- Increasing the number of private functions and catering events by 2 1/2 times the current level over the next three years.
- Increase dollar sales by:
  - 30 percent in Year 1 (1995)
  - 20 percent in Year 2 (1996)
  - 20 percent in Year 3 (1997)
- Institute a motivational compensation program for the restaurant manager and the kitchen manager.
- Increase public awareness of McMurphy's Grill and its mission.

The management of McMurphy's Grill has been busily making plans for marketing the various services offered by the restaurant (i.e. lunch, boxed lunches, and parties). At the same time, they have already begun making some changes in the environment to enhance the decor by changing the curtains and adding new tablecloths. In addition, the bar has been reorganized which has improved its appearance and helped the efficiency of the operation. Table groupings have been rearranged so as to increase the number of tables for two. In the past, most of the tables had been set up in groups of four. Since more customers arrive in groups of two, rearranging the tables helps to eliminate wasted space.

Future plans include both short term and long term efforts to assist the Restaurant in achieving its goals of increased sales.



## Financial Plan

McMurphy's previous financial history can certainly leave one wondering about its future. Sales have decreased while costs have increased. However, there is much information gleaned from these results that can be channeled into a brighter future.

As one glances at the history and then at the future based on new sales results, it is obvious that much depends upon the level of sales an operation is able to achieve. Most of McMurphy's expenses are fixed, therefore the higher the sales level the better the bottom line.

To achieve the objectives outlined in the marketing plan, it is important to understand some of the financial data and assumptions which led to the arrival of these target levels. A 40 percent increase by the end of year three would increase the average number of customers to 97 per day. This is not unrealistic, considering that the management has made plans to reduce the size of the bar which would increase its capacity of 28 seats. The seating capacity would then be 108 instead of 80.

The current breakdown between lunch sales and sales from private functions is approximately 80 percent lunch and 20 percent parties. This certainly demonstrates the significance of the lunch business. However, growth in the lunch business is not as great as in the private function business, due in part to capacity limits as well as the time frame for lunch. Thus, the future sales breakdown is more likely to resemble: 70 percent lunch and 30 percent parties.

The increase in the number of parties and catering events is expected to more than double. This assumption is based on the fact that sales per party is averaging \$750. At a sales level of \$150,000, the sales from private functions is approximately \$30,000 (maintaining our 80/20 breakdown as explained above). With the average sales per party at \$750, the number of parties would be 40 per year. Transferring this analysis to the 1997 estimated sales level, but assuming a 70/30 breakdown, the sales from private functions would be \$75,000. Assuming the average sales per party remains the same at \$750, the number of parties would increase to 100. This is more than double the current level. Given the potential market of area firms, future convention traffic, and supporters of St. Patrick Center, management feels this is a feasible target. They also realize that a significant marketing effort must take place to achieve this goal.

The financial reports in the future will also reflect more detail. The current accounting procedure for St. Patrick Center will need to be adjusted in order to segregate out more detail, especially in terms of sales, various types of wages, and some operational expenses. The process should be in place for the start of the new fiscal year in July.

## McMurphy's Grill: The Employment Training Unit

**Mission;** To select and assist appropriate clients in the process of attaining on-the-job skills that will assist them in becoming self-sufficient.

### Description of Service

Along with other St. Patrick Center programs, McMurphy's Grill provides a continuum of services which moves the client from the street, receiving no services, to competitive employment and independence. The pre-training portion of this program begins with the selection of appropriate mentally ill homeless clients by counselors at Shamrock Club (one of St. Patrick Center's programs). These clients will complete a series of pre-training classes before placement at McMurphy's. Training includes, but is not limited to communication, self-esteem, personal hygiene, accepting criticism, coping with past problems, time management, and problem solving. Usually the first four classes (Self-image; Behavior (Old and New); Making Choices; and Communication) are required before being placed at the restaurant. During the period in which the client is involved in the On-The-Job-Training portion of the program, the remaining four classes (Problem Solving; Saving Money/Goal Setting; Leisure Time Management/Personal Growth; and Budgeting Priorities) are





offered once a week.

After the client has completed the first series of Pre-Employment Classes and before being placed into a position at the restaurant, an orientation is conducted by the Client Case Manager and individualized treatment plans are developed.

Clients are then assigned to an appropriate position at the restaurant and receive proper on-site training. This phase of training includes basic skills such as cleaning and mopping and can lead into more complex positions such as waiting. The client is encouraged to move on to competitive employment only when fully emotionally, psychologically, and socially ready to do so. The initial placement in the community will include careful monitoring by the Case Manager. Hopefully, independent employment is the end result.

## Target Market

For the Employment Training component, the customer (or client trainee) is most often homeless and has symptoms of mental illness. Many also are recovering alcoholics or dealing with drug addictions. While most of our trainees are men, which is indicative of this population as a whole, there have been a few women in the program. They suffer from a variety of psychiatric illnesses and have been a part of The Shamrock Club, a day program for mentally ill homeless men and women, operated by St. Patrick Center.

While the prime target for this training program are persons who are homeless and mentally ill, if space is available clients from other programs offered by St. Patrick Center may also participate in this training program. Most are homeless, but without disabling psychiatric illnesses.

The following goals have been set in terms of the number of participants and the number who successfully become self-sufficient:

- 25 participants in 1995 with 10 successes
- 28 participants in 1996 with 12 successes
- 30 participants in 1997 with 14 successes

## Financial Plan

The cost of the Employment Training component will be funded in part by the remaining corporate contributions as well as additional solicited funding. By 1997, profits from the restaurant business will help to defer a portion of these costs. Continued profits from the restaurant business segment will reduce these training costs, so that future expansion of this endeavor is likely.

Continued interest in this program from McDonnell Douglas Corporation has been received and the potential for further funding has been expressed. With this possible source of funding, coupled with St. Patrick Center's ability to raise funds, the employment training portion will be covered.

## OPERATIONS AND MANAGEMENT

Perhaps the most important aspect of this strategic plan is in the operations and management of the endeavor. The management indirectly involved in the operating of the restaurant business component or the employment training component. It is vital that there be clear reporting relationships and expectations. It is also essential that both components work closely together to ensure the success of the client trainees.

As one of St. Patrick Center's programs, McMurphy's falls under the governance of the St. Patrick Center Board of Directors. The full board meets bimonthly and the executive committee of the board meets on the odd months when the full board does not meet.

Six task groups have been organized, made up of board and staff members, to look at important issues facing the center in the future:



- **Mission and Vision:** What should be our continuing mission and vision be for the next five years?
- **Programs:** What programs will best meet the client needs?
- **Organization and Staffing:** What are the ideal organization and staffing necessary to effectively serve our clients?
- **Facilities:** What facilities will be needed to house these services?
- **Revenue:** How will the revenue needs for the future be met?
- **Board:** What should be our board composition?

Chosen by the board of directors, the executive director of St. Patrick's Center reports directly to the board and is responsible for the budget of over \$ 1.8 million, a full-time/part-time staff of over 50 people and the effective management of thirteen programs.

The Director of Programs (Mental Health) and the Client Case Manager are responsible for the selection of appropriate clients, conducting the pre-employment classes and the orientation session, preparing individual treatment plans with the client/trainee, and providing support services (budgeting, help with locating housing, clothing, transportation, etc.).

The Client Case Manager directly monitors client progress through the training program, assessing the clients ability to move on. This position reports directly to the Director of Programs (Mental Health).

The Director of Programs (Mental Health) reports directly to the executive director and is involved with selection of appropriate clients. The Director also supervises the Client Case Manager. A monthly report indicating client progress will be prepared for the executive director by the Director of Programs (Mental Health).

The Business Director is responsible for overseeing the operation of the restaurant business component of McMurphy's Grill. It is essential that this person have a significant background and experience in business. This person works very closely with the restaurant manager in the operation of the restaurant. This position, which reports directly to the executive director, also supervises the Marketing Consultant. Because the foodservice industry is so competitive, it is essential that the marketing effort be carefully monitored and progress noted.

The Restaurant Manager is responsible for the effective and efficient operation of the restaurant business component. This includes the training of client employees in their assigned restaurant positions, hiring other professional staff, as well as all that is involved in the daily operation of this facility. This position will report directly to the business director, who will work closely with the Restaurant Manager and his staff to ensure the viability of the operation.

Assisting the Restaurant Manager is the Kitchen Manager. The Kitchen Manager is responsible for the efficient and effective operation of the kitchen facilities. Responsibilities include: ordering food and supplies, training client trainees at the various stations within the kitchen area, quality food preparation, suggesting new menu items, costing out menu items, and monitoring food waste. This position reports directly to the restaurant manager.

The Management Consultant coordinates activities with the restaurant manager and the business manager. The Management Consultant is directly responsible to the business director. Responsibilities include: preparation of a marketing plan along with an annual calendar of events; the organization, coordination and implementation of the marketing activities; establishing measurements to evaluate the effectiveness of various marketing efforts; and networking with various community organizations.

## Operations

Weekly and Monthly management reports will be prepared and discussed at weekly and monthly staff meetings of those involved in this program. Problems will be identified and potential solutions discussed. Progress will be highlighted and noted for future plans. Currently, the staff meetings consist of the Restaurant Manager, the



Kitchen Manager, the Director of Programs (Mental Health) and the Client Case Manager. In the future these meetings will also include the Business Director and the Marketing Consultant. This will assist in shoring up the fragmentation that exists and improving the communication process, which will help in assessing particular marketing efforts and keep everyone informed of future plans. All involved will have a better understanding of the performance of the entire operation, including the training process and the operations of the business. This will certainly improve the effectiveness and efficiency of the marketing efforts.

In addition, the following procedures need to be incorporated into the operations.

## Inventory

Responsibility of the Restaurant Manager. Inventory should be taken on a weekly basis and maintained via computer so that prices can be updated regularly and will require less time each week. At this time there is not a computer at McMurphy's, but the Executive Director and Director of Development at St. Patrick Center will seek donations of computer equipment.

## Meal Costing

Responsibility of the Kitchen Manager. A listing of each menu item and the ingredients needed for each, along with their costs needs to be maintained and updated regularly. This will assist the management in determining prices as well as evaluating cost of sales margin.

## Daily Receipts Report

Responsibility of the Restaurant Manager. To be completed on a daily basis and turned into the finance office at St. Patrick Center within two days. The receipts should be deposited daily as well.

## Invoices

Responsibility of the Restaurant Manager and St. Patrick Center's Finance Office. To be checked against ordered items and then sent over to St. Patrick Center to be paid. Price changes should be noted on the inventory list and entered with the next weeks inventory.

## Daily Report

Responsibility of the Restaurant Manager. In addition to the sales report, a report should be prepared summarizing the prime costs. A food statistic summary should also be maintained along with a summary of the daily productivity.

## Management Reports and Variance Report

Responsibility of the Director of Finance/Administration. They include:

- **Customer Count** Comparisons with previous years and periods
- **Inventory Valuations and the determination of Gross Profit**
- **Income Statement** To include a breakdown of the various products offered (lunch business, box lunches, carry-out, and parties). It should also include comparisons with previous years and prior periods.
- **Annual Budget** To be compiled with the input of the restaurant manager, the kitchen manager, the Business Manager, and the Marketing Consultant.
- **Labor Costs** With this item being such a large percentage of the operating costs, this expense needs to be carefully monitored by the restaurant management on daily, weekly, and monthly reports which are



to be prepared for the Restaurant Manager and Business Director by the Finance Office.

## Calendar of Events

Responsibility of the Marketing Consultant and (indirectly) the Business Director. A plan that includes specific promotional events and advertising efforts by month. An estimated cost of each event and ad should be identified. The plan should be evaluated monthly by the project team along with the Marketing Consultant and revised as necessary. This will help reduce the fragmentation that has existed and served to assist management in the preparation of the annual budget.

## McMurphy's Grill Operations Report

Responsibility of the Business Director; to be prepared for the Executive Director. A periodic written report (monthly or quarterly) of progress, problems, and potential solutions for the review and updating of the executive director. Problems that need immediate attention will be dealt with separately and in a timely manner. Variances in budget projections, marketing program expectations, client progress, and specific measurable results of advertising efforts should be included.

## MAJOR COMPETITORS: LUNCH BUSINESS

### Le Dejeuner Deli & Bakery

Located next door to McMurphy's Grill, this newly opened deli is open Monday through Friday from 7:00 a.m. to 2:30 p.m. This small operation provides a variety of menu items at a somewhat lower price. Services include dining in, carry-out, boxed lunches and catering. However, the dining environment is definitely lacking in appeal and does not seem to draw the professional business person. Its carry-out and boxed lunch business may detract from McMurphy's Grill. The atmosphere prevents a significant competitive threat. It is only the nearness of its location that identifies it as a competitor.

### The Shell Cafe

Located at 1221 Locust on the Main Floor of the Shell Building, The Shell Cafe is within four blocks of McMurphy's Grill. Open primarily during the lunch period, the prices are similar. However, the menu items do not have the "homemade" appeal that is characteristic of McMurphy's Irish stew, meatloaf platter, or chicken and noodles. Menu items include dinners (steak, fish, pasta, ham, beef and gyros) and a variety of sandwiches and salads.

### The Missouri Bar & Grill

Located on north Tucker (701N. Tucker), a couple of blocks from McMurphy's Grill, has a menu selection and prices comparable to McMurphy's. It also has a full bar (open until 2 a.m.). The outside of the restaurant has an attractive big, bright red awning, which is visible from far away. While similar in some ways to McMurphy's, The Missouri Bar and Grill primarily attracts people interested in the bar. It has the largest sales volume of any of the competition.

### The St. Louis Fish Company

Located 2 blocks from McMurphy's Grill on Locust, the St. Louis Fish Company (a new addition to the downtown area) offers a unique menu listing. Open from 10:30 a.m. until 10:00 p.m. (Monday through Friday), this establishment offers: a lunch buffet for \$2.99 per pound, and "All You Can Eat" Special for \$5.99, and a



Lunch Box Special for \$2.50 which includes choice offish plus one side order. This is in addition to the regular menu. Service is similar to the St. Louis Bread Company and thus does not include the full-service provided at McMurphy's.

## The St. Louis Bread Company

The Saint Louis Bread Co. is considered a bakery/cafe that offers authentic breads, as well as croissants, muffins and pastries. Their advertisements usually focus on their "fresh" bread and pastries. However, their menu also includes cold sandwiches, salads and soups. Prices for their sandwiches range from \$4.00 to \$6.00 and each restaurant has a fax number for ordering. Since their service is similar to that of a fast-food restaurant, they capitalize on the "alternative" to burgers and fries by focusing on a quick and healthy meal.

## DEE DEE's Deli

DEE DEE's Deli is an interesting establishment. Located at the corner of 10th Street and Washington Ave, three blocks from McMurphy's, it appears to be a "hole in the wall" from its very unattractive exterior and the interior is very drab and dark. However, it is usually full every working day. What makes it successful is a reputation based on good food, friendly service and a great price. They differ from the Saint Louis Bread Company in that they offer items that come from the grill. Burgers and charbroiled chicken are listed among the hot and cold deli sandwiches. The service makeup is practically identical to the St. Louis Bread Company. An average customer orders from a display menu and pays the cashier. They are then given a number to take back to their table. When the order is ready, an employee will bring it to the table. Everything else, from condiments to utensils, are self-service.

All of these operations are fairly small and (except for The Missouri Bar & Grill), are only open for lunch. They all offer boxed lunches. While specific data is unavailable on these competitor's sales levels and market share, it is reasonable to assume that each possesses less than one percent of the market share and that their annual sales level is well under the industry average of \$429,000 for a tableservice operation. It would be safe to assume that most of them realize between \$100,000 and \$300,000 in sales annually. The Missouri Bar and Grill might be higher because of its longer hours, yet it would be safe to estimate that it recognizes less than the industry average because it is not a high traffic area.

Lastly, but certainly not least among the competitive issues, are those firms which provide an inside cafeteria for their employees. The Post-Dispatch and Mercantile Bank both have international cafeterias available for their employees. This certainly detracts from business as both are large employers within walking distance of McMurphy's Grill. Management will need to reduce the impact by appealing to the employees desire for a home cooked meal and the satisfaction that they are helping someone at the same time.

## EMPLOYMENT TRAINING COST ANALYSIS

Financial data for this analysis is taken from the Pro Forma Income Statement found in Appendix P. Using the bottom line figures, which include both the operational profit/loss as well as the training costs involved, a picture of the true training costs can begin to materialize.

**1995:** Loss of \$49,118 divided by 260 days of operation divided by the number of clients per day (which for this analysis we will assume to be 10) would derive a cost per client day of: \$18.89

Utilizing a similar analysis, by taking the loss of \$49,118 and dividing it by the expected success rate of 10 (success rate = clients/trainees who have completed the program and have gone on to attain self-sufficiency through employment) would derive a cost for each success of: \$4,912

Utilizing this same analysis, by taking the loss of \$49,118 and dividing it by the number of participants expected for 1995, of 25 would derive a cost per trainee of: \$1,965





**1996:** Loss of \$32,595 divided by 260 days of operation divided by 10 clients would derive a cost per client day of: \$ 12.54

- Cost per success: \$2,716 (based on 12 successes)
- Cost per trainee: \$1,087 (based on 30 participants)

**1997:** Loss of \$12,890 divided by 260 days of operation divided by 10 clients would derive a cost per client day of: \$4.96

- Cost per success: \$ 921 (based on 14 successes)
- Cost per trainee: \$ 430 (based on 30 participants)

## MENU

McMurphy's Grill is owned and operated by St. Patrick Center, a multi-service agency which addresses the needs of poor and homeless people in our community.

Through a generous grant from the McDonnell Douglas Foundation and the McDonnell Douglas Employees\* Community Fund, along with the assistance and expertise of The Pasta House Company, McMurphy's Grill opened on Dec. 3, 1990. It serves as a training facility for homeless mentally ill individuals who wish to make positive changes in their lives.

Open Monday through Friday from 11 a.m. to 3 p.m., McMurphy's offers carry out service, box lunches, and private parties any evening or weekend. We invite you to become a part of this endeavor by visiting McMurphy's often and by telling others about us.

Thank you for your patronage.

### Soups (Cup/Bowl)

Irish Clam Chowder.....1.75/2.50  
 Soup of the Day.....1.50/2.25  
 Celtic Chili.....1.95/2.95

Irish Clam Chowder 1.75/2.50  
 Soup of the Day 1.50/2.25  
 Celtic Chili 1.95/2.95

### Appetizers

Fried Mozzarella Sticks.....3.95  
 Toasted Ravioli.....2.95  
 Chicken Wings.....3.95  
 Homemade Irish Chips.....2.95  
 Handcut French Fries.....1.25  
 Onion Rings.....2.95

Fried Mozzarella Sticks 3.95  
 Toasted Ravioli 2.95  
 Chicken Wings 3.95  
 Homemade Irish Chips 2.95  
 Handcut French Fries 1.25  
 Onion Rings 2.95



## Salads (Your Choice of Dressing)

Side Salad.....	1.25
House Salad (Mixed Greens).....	2.25
Caesar Salad.....	3.50
Caesar Salad w/chicken.....	4.95
Chef Salad.....	4.50

Side Salad	1.25
House Salad (Mixed Greens)	2.25
Caesar Salad	3.50
Caesar Salad w/chicken	4.95
Chef Salad	4.50

## Sandwiches

McMurphy's Deli.....	4.50
Charcoal Broiled Chicken.....	4.50
Hamburger.....	3.95
Cheeseburger.....	4.50
Sirloin Strip Steak.....	5.95
Corned Beef.....	4.50
Roast Beef.....	4.50
Breaded Fish.....	4.50

McMurphy's Deli	4.50
Charcoal Broiled Chicken	4.50
Hamburger	3.95
Cheeseburger	4.50
Sirloin Strip Steak	5.95
Corned Beef	4.50
Roast Beef	4.50
Breaded Fish	4.50

## Specialties

Meat Loaf with Potatoes and Fresh Vegetables.....	5.95
Irish Stew (with Beef) served with Irish Soda Bread.....	4.95
Fresh Steamed Vegetables served with Garlic Butter.....	4.75

Meat Loaf with Potatoes and Fresh Vegetables	5.95
Irish Stew (with Beef) served with Irish Soda Bread	4.95
Fresh Steamed Vegetables served with Garlic Butter	4.75

## Soup and Salad

Bowl of the Soup of the Day w/House Salad.....	3.75
Cup of Soup of the Day & 1/2 Sandwich Choice of Roast Beef or Deli.....	4.00
House Salad & 1/2 Sandwich Choice of Roast Beef or Deli.....	4.25
Low-cal Chicken with Side Salad & Vegetables.....	6.25

Bowl of the Soup of the Day w/House Salad	3.75
Cup of Soup of the Day & 1/2 Sandwich Choice of Roast Beef or Deli	4.00
House Salad & 1/2 Sandwich Choice of Roast Beef or Deli	4.25
Low-cal Chicken with Side Salad & Vegetables	6.25

## Daily Specials

Ask about our Daily Specials and Light Entrees!



## Desserts

Bailey's Irish Cream Cake.....2.75

Bailey's Irish Cream Cake 2.75

Ask about our Daily Dessert Specials!

## TARGET CUSTOMER ANALYSIS

### Lunch Business

The lunch customer tends to be a professional person, approximately equal distribution between men and women, who work within walking distance of McMurphy's Grill. Observation by the management points to the speculation that most are in mid-level management positions. Three factors support this observation. First, most are wearing business suits or dresses that reflect a professional position. Secondly, they have the leeway to enjoy a more leisurely lunch and are not bound by a time clock. Thirdly, their incomes or expense accounts seem to equate with mid-level positions since McMurphy's Grill is a medium-priced establishment. Numerous other nearby options, which are much lower priced, are available. While not in the direct vicinity, higher priced establishments that are equated with a higher status are also easily accessible from anywhere in the downtown arena and usually have better parking facilities.

A much smaller portion of the lunch business are customers who come to support St. Patrick Center and the Mission of McMurphy's Grill. This group includes professional people working in the area, employees of other nonprofit or religious organizations, and other individuals who are either downtown shopping or in the area for a business appointment.

McMurphy's carry-out service tends to draw mostly business workers in the local area. Usually, the order is for more than one person. It is a growing business segment and certainly consistent with the lunch time trend of shorter lunch periods. By offering free delivery and soliciting orders through a series of discount coupons, McMurphy's expects to significantly increase this portion of the lunch business. Previously, McMurphy's has not tracked this aspect of the lunch business, but will do so in the future.

Other groups and individuals that McMurphy's Grill hopes to target more effectively in the future include:

- Tour guides and their groups.
- People attending special events (i.e. St. Patrick Day parade, Olympic Festival and Cardinal Baseball games).
- Convention and Tourist Traffic. With the Cervantes Convention Center only two blocks away, this market seems to be a perfect opportunity to increase business. However, to be able to do this, McMurphy's Grill needs to be open when it is compatible with the particular convention's schedule. This may not be feasible or profitable for every convention.

### Boxed Lunches

The boxed lunch business usually attracts the following groups:

- Nonprofit and other charitable organizations. Groups that have consistently ordered from McMurphy's Grill are United Way, Cardinal Glennon Hospital and the Girl Scouts of America.
- Religious organizations, including churches, religious congregations and schools.
- Business Meetings. An area that McMurphy's would like to increase.

The boxed lunch business needs to be more aggressively marketed to all of the above target markets, especially to the business community. Appendix F depicts a possible advertisement for the box lunches along with the revised menu which has been recommended. These revisions reflect additional options which make it more



appealing to those in the business community as well as other organizational groups.

## Private Parties

This particular segment of the operation has the most diverse customer base and realizes the largest contribution margin. McMurphy's Grill has been the site of wedding rehearsal parties, birthday parties, anniversaries, holiday parties (especially during the Christmas season), business meetings, art shows, fund raisers, and a variety of other gatherings. Customers learn about McMurphy's Grill from a variety of sources, most however are familiar with the restaurant's mission and desire to support its efforts. There have been other groups who were looking for space to have a party and have been steered to McMurphy's Grill by supporters or other people familiar with McMurphy's quality, service and lower cost. Management intends to focus more on this segment of its operation, recognizing that the private party business is the aspect of the business which will most help the operation research, or at least come much closer, to its break-even point.

## MARKETING STRATEGY

### Remodeling

In order to increase capacity, so as not to discourage those coming for lunch on days that the restaurant is full and to improve McMurphy's ability to attract lunch business meetings, McMurphy's Grill is planning to reduce the size of its bar. The bar business at McMurphy's is negligible during the lunch hour. By cutting the bar in half, which leaves sufficient space in which to service small group meetings, a new room could be created which would increase capacity by 28 seats. The benefits of this improvement, aside from those mentioned above, are additional party seating and/or cocktail area. Bar area will be easier to maintain and more inviting for customers to sit at. In addition, there is the potential for two groups to use McMurphy's Grill in the evening. The estimated cost for this, including reorganizing the serving area, would be \$5,300. The restaurant manager has already solicited bids for some of the work.

Improvements to the kitchen area which would help to make the operation more efficient and the service better, include the addition of a six burner stove, a 48-inch grill, shelving, a salad window, and improvements to the dishwashing area. The cost of these changes would be approximately \$1,850.

**Note:** The benefits are hard to estimate for items 1 & 2 above, however, in terms of the lunch business alone this increase in capacity could potentially realize a gross profit of \$33,124 (based on an average check of \$7.00 and full capacity every day). The assumption of full capacity is probably unreasonable considering that currently the restaurant is only filling, on the average, 69 seats per day or 86 percent of its current capacity. However, if other marketing efforts continue to improve the customer traffic, as has the Celebrity Hosts Program (sales are up 20 percent over 1993), then this assumption is not totally unrealistic.

### Advertising

A large sign or printed awning that would better identify the location of McMurphy's Grill from Eleventh Street. Currently, the name is not visible until you have already passed the location. This issue is currently under consideration.

### Marketing

Parking, which has been a headache from the beginning, has a significant impact upon sales. The Executive Director, the Board of Directors and the staff of this program have been working on this problem. Thus far, McMurphy's Grill has succeeded in getting the City of St. Louis to add additional parking meters along Eleventh and Lucas Streets. Management is in the process of talking with lot owners in the vicinity (of which



there are several) and negotiating an arrangement whereby customers from McMurphy's can park at a reduced rate and that we can be guaranteed a particular number of parking spaces.

Develop a customer evaluation/survey for all of various services offered by McMurphy's. A recommended customer evaluation/survey for McMurphy's lunch business has been included in Appendix H. Request suggestions for improvements from customers or potential customers. Periodically invite members of the Board of Directors or other interested supporters to have lunch at McMurphy's to evaluate the quality of the food and service.

## ADVERTISING AND PROMOTION RECOMMENDATIONS

McMurphy's Grill has had an added advantage in this area as the operation receives a lot of free coverage, which has been beneficial. From articles on the restaurant by the *Post-Dispatch* to being featured on local radio and television McMurphy's has received a lot of free publicity. The most recent coverage in the February 1994 edition of *St. Louis Commerce*, continues to keep St. Patrick Center and McMurphy's Grill in the mind of the St. Louis community. These efforts certainly help to increase the scope of McMurphy's Market potential by educating people as to its mission and location.

McMurphy's has recently implemented a Celebrity Hosts Promotion strategy, which has been extremely successful. Various local and state celebrities are featured each Wednesday at McMurphy's where they become the Celebrity Host for the day. Each is asked to provide names of guests to whom we can send a special invitation. This has the added advantage of increasing the restaurants mailing list for all major promotional events.

It is important that McMurphy's continue to keep its name in the forefront, both in terms of getting the message of what its mission is all about and to dispel some of the myths that may surface when discussing a project that involves the homeless mentally ill. It also doesn't hurt the bottom line by encouraging people to participate in this endeavor.

However, McMurphy's Grill long ago realized that it would never survive based solely on this type of exposure and so has aggressively advertised from the beginning. Except for a period of time after the founding Executive Director left and until the arrival of the newest Executive Director, advertising and promotion of the restaurant business has been on the forefront.

McMurphy's advertises regularly in Downtown Dollars, which is a flyer with a distribution of over 20,000 published on a monthly basis. In addition, McMurphy's occasionally advertises in the *St. Louis Business Journal* and *St. Louis Commerce*. Sometimes these are complementary adds. As a member of the St. Louis Convention & Visitors Commission, McMurphy's Grill can promote the restaurant business directly to convention traffic and tourists. McMurphy's is also listed in the National Restaurant Association Membership directory as well as among the members of Downtown St. Louis, Inc. Occasionally, an ad is run in the *St. Louis Review*, the Catholic newspaper of the Archdiocese of St. Louis. Finally, but certainly not least, is that McMurphy's Grill is usually cited in the *St. Patrick Center Chronicles*, a publication of St. Patrick Center published three times a year.

Direct mail is often used to notify supporters or other people on our mailing list about various promotional events at McMurphy's Grill. The mailings often focus on businesses downtown, supporters of St. Patrick Center, nonprofit organizations and other patrons of McMurphy's Grill. Postcards were sent out, for instance, promoting the Celebrity Hosts program. Appendix I provides a sample of what was sent out.

### Continue the Celebrity Hosts Program

This effort has increased sales by 20 percent over last year during the same period. The list of willing celebrities continues to grow with the addition of a nationally known St. Louis artist. Recently, we have begun to get phone calls from leaders in the community interested in becoming a celebrity host. And this is only after





two months of operation.

Add to the list of Celebrity Hosts, CEOs of major firms located in downtown St. Louis. This can have a significant impact sales from the business community. By inviting the top executives, who are likely to invite other significant people within their organization as well as other employees, McMurphy's reputation as a quality restaurant will spread. The business community will become better informed as to what McMurphy's Grill is all about.

### **Reinstitute Lunch of the Month Club**

Set up a calendar of events and identify advertising and promotional efforts needed. Appendix K is a sample of some recommendations for the next year.

Make personal contacts with key personnel at local firms that are within walking distance to invite them to McMurphy's Grill for lunch. Offer free menu items to motivate them. The best person to identify within these local organizations are the secretaries.

### **Offer Sales Promotions for Frequent Diners**

Revise boxed lunch menu to offer an upscale version to groups seeking a higher quality boxed lunch and who are willing to pay for it.

Offer special promotions for Secretaries Day, Boss's Day, Birthday's, etc.

Promote the anniversary of McMurphy's Grill through specials on the menu, printed advertisement, articles in a local publication, and a featured article in the St. Patrick Center Chronicles.

Advertise the availability of McMurphy's Grill for private functions in the evening or on weekends, by focusing on various wedding supply places, churches, local publications, with musicians or mobile DJ's, membership organizations (such as fraternities and sororities) and business firms in the downtown area.

### **Continue Responding to Convention and Visitor Commission Leads**

Continual evaluation and re-focusing of these efforts is a must. By regular monthly meeting with the Marketing Consultant and better communication efforts regarding the business side of the operation, these efforts should prove to be effective and more efficient than past efforts.



# MCMURPHY'S GRILL INCOME STATEMENT: Fiscal Years 1992 - 1994

	Final FY92	Final FY93	FY94YTD
<b>Sales:</b>			
Food & Beverage	\$167,369	\$146,392	\$88,203
<b>Cost of Sales:</b>			
Food & Beverage	65,170	52,422	34,175
<b>% Of Sales</b>	39%	36%	39%
<b>Operating Expenses:</b>			
Salaries	81,79	177,929	59,246
P/R Taxes/Benefits	21,948	20,732	13,611
Utilities/Bldg Exp	9,707	22,79	29,068
Telephone	1,857	1,910	1,468
Supplies	12,713	16,900	69,452
Postage	266	0	856
Stationery/Pstg	912	195	792
Equip Purchases	879	1,169	411
Depreciation	0	4,775	9,550
Repairs/Rent Equip	5,027	3,560	1,144
Local Transport	457	464	507
Advertising/Publicity	8,940	8,170	5,394
Business Svc's & Fees	7,820	13,845	3,985
Insurance	2,825	3,290	2,670
Membership Dues	125	325	275
Licenses & Permits	949	675	858
Aid to Individuals	0	250	20
<b>Total Expenses</b>	156,216	176,987	119,307
<b>Net Profit (Loss)</b>	(\$54,017)	(\$83,017)	(\$65,279)

Final FY92   Final FY93   FY94YTD

## Sales:

Food & Beverage      \$167,369      \$146,392      \$88,203

## Cost of Sales:

Food & Beverage      65,170      52,422      34,175

**% Of Sales**              39%              36%              39%

**Gross Profit Margin**      102,199      93,970      54,028

## Operating Expenses:

Salaries                  81,79                  177,929              59,246

P/R Taxes/Benefits      21,948              20,732              13,611

Utilities/Bldg Exp      9,707              22,79              29,068

Telephone              1,857              1,910              1,468

Supplies                  12,713              16,900              69,452

Postage                  266                  0                  856

Stationery/Pstg          912                  195                  792

Equip Purchases          879                  1,169              411

Depreciation              0                  4,775              9,550

Repairs/Rent Equip      5,027              3,560              1,144

Local Transport          457                  464                  507

Advertising/Publicity      8,940              8,170              5,394

Business Svc's & Fees      7,820              13,845              3,985

Insurance                  2,825              3,290              2,670

Membership Dues          125                  325                  275

Licenses & Permits          949                  675                  858



	Final FY92	Final FY93	FY94YTD
Aid to Individuals	0	250	20
<b>Total Expenses</b>	156,216	176,987	119,307
<b>Net Profit (Loss)</b>	(\$54,017)	(\$83,017)	(\$65,279)

## CASH FLOW CALCULATIONS

### Cash Flow: Designated Funds\*

Balance as of 6/30/93.....	\$142,648
Estimated loss for 1994.....	-97,919
Depreciation.....	+9,550
Balance as of 6/30/94.....	\$54,279
Estimated loss for 1995.....	-49,118
Depreciation.....	+9,550
Balance as of 6/30/95.....	\$14,711
Estimated loss for 1996.....	-43,095
Depreciation.....	+9,550
Balance as of 6/30/96.....	\$(8,334)
Estimated loss for 1997.....	-25,390
Depreciation.....	+9,550
Balance as of 6/30/97.....	\$(11,674)

### Cash Flow: Designated Funds\*

*\*This assumes no increase in grant dollars.*

Balance as of 6/30/93	\$142,648
Estimated loss for 1994	-97,919
Depreciation	+9,550
Balance as of 6/30/94	\$54,279
Estimated loss for 1995	-49,118
Depreciation	+9,550
Balance as of 6/30/95	\$14,711
Estimated loss for 1996	-43,095
Depreciation	+9,550
Balance as of 6/30/96	\$(8,334)
Estimated loss for 1997	-25,390
Depreciation	+9,550
Balance as of 6/30/97	\$(11,674)

## FINANCIAL ASSUMPTIONS AND ANALYSIS

### Pricing Strategy

McMurphy's Grill has a twofold pricing strategy. First, since McMurphy's prime objectives is its training opportunities, the flow of customers through the restaurant is essential. Customer volume is also important to the bottom line. Thus, the price must remain reasonable in order to attract customers. Many restaurant patrons, according to the National Restaurant Association study, thought that medium priced restaurants provided the most value for their money. McMurphy's Grill falls into this category and thus is seen as a provider of value. It must also be competitive with other similar (limited menu tableservice) establishments.

Secondly, the prices must be at a level to cover variable operational costs as well as allow enough margin to cover fixed operational costs and help to defray the training costs involved. The training aspect incurs increases in personnel, employee benefits, food waste, and supply costs as a result of the learning curve — which is likely to be higher than in other cases because of the turnover of trainees and their disability.



For the limited-menu tableservice establishment, the cost of food sold should be about 35 percent. The cost of food and beverage (wine, beer and other liquor) is usually around 29 to 32 percent. We can assume that 30 percent is a good average cost that McMurphy's should attempt to target. Reviewing the Income Statement for Fiscal Years 1992, 1993, 1994, which can be found in Appendix L, it can be seen that McMurphy's is higher than the average. Better inventory and waste control will assist with maintaining lower margins. The cost of sales will decrease as the party volume increases and more liquor is sold.

Thus, it is the goal of McMurphy's Grill to maintain a 30-32 percent cost of sales so that at least 68-70 percent of total sales goes toward operating expenses. Operating expenses, for foodservice establishments, tend to be rather high because of the amount of fixed assets involved. McMurphy's Grill is running high in this area, but management is in the process of assessing where the problems lie.

The kitchen manager and a volunteer at St. Patrick Center are also in the process of conducting a food cost analysis. Once this has been completed, it will be maintained and evaluated periodically with the restaurant manager. To facilitate this process, the analysis will be computerized so that it can be updated as prices change.

## Sales

While sales levels have fallen since FY 1992, much can be attributed to the change in management at St. Patrick Center. Initially, the original Executive Director was heavily involved in marketing McMurphy's Grill and had become rather successful. After she moved from St. Louis, her predecessor was not very active in the marketing of the restaurant business. In fact, during his stay as Executive Director, very little marketing was done. The Marketing Consultant was rarely communicated with and at that time, the Executive Director was the only one who could direct her activity.

In addition, very little financial reporting or control was taking place. With the recent change in the Executive Director position, these areas are being highlighted more intensely. It is recommended that responsibility for the marketing and business aspect of McMurphy's Grill be handed to a newly defined position of Business Director. This will be a new position and is currently not filled, but the responsibility for the Restaurant business should fall to the Finance and Administration Department in the mean time. Such an approach reflects a more effective business approach, rather than laying the responsibility for running a business to a Director of Programs. Just as it would be inappropriate to assign the responsibility of coordinating the training program to the Director of Finance/Administration, so the current approach does not reflect a strategic orientation toward growth. This is a key consideration for implementing an effective strategic plan which will realize growth in the business component.

Since the start of the Celebrity Hosts promotion, sales for the past two months are higher, by 20 percent, than for the same two months of 1993. The increase in sales from January and February, as is depicted in Appendix M (Calendar Year 1994 Sales Breakdown), is also significant. It is obvious from this picture that liquor is not a priority item during the lunch period, but is a significant portion of the total sales of private parties.

The customer count is also a significant factor as is illustrated in both Appendix M and Appendix N (Calendar Year 1994 Customer Count). Appendix N is a little more detailed and shows that the average number of customers per day is under the 80-seat capacity that currently exists. For a restaurant like McMurphy's, the average daily seat turnover was 1.8 (this includes operations that are open for both lunch and dinner) and the median check was \$6.48. McMurphy's daily seat turnover, using the data from the last two months, is .86 and the average check amount is \$7.11. The large jump in the number of customers per day from January to February reflect growth as well. This picture also shows that Wednesday is by far the biggest day. This is not surprising as this is the day the celebrity hosts are with us. Thursdays and Fridays seem to also be good days. This is helpful information when considering other promotional activity.

Information such as in Appendix M and N are not available for the prior years so as to better make comparisons. In the future, however, this type of information will be maintained and reviewed on a regular basis. The usefulness of this information is beyond saying in making day-to-day decisions in any business



environment.

Pro Forma projections of sales are based on the marketing goals of a 30 percent increase in the first year; a 20 percent increase in the second year; and a 20 percent increase in the third year. Also taken into consideration has been the breakeven point. For the 1995, 1996 and 1997 sales projections, the following breakeven points exist:

- 1995: \$198,197
- 1996: \$203,298
- 1997: \$208,058

The variable costs used in calculating these breakeven points includes cost of sales, supplies and advertising. All other items are assumed to be fixed. The costs involved in the training component have not been included in this analysis. It is anticipated that McMurphy's Grill will breakeven after year two (1996). It is well on its way to success. Refer to Appendix S for the complete Breakeven Analysis.

## Cost of Sales

The Historical Income Statement reflects that McMurphy's Grill is achieving a 39 percent Cost of Sales, which is higher than the industry's average of about 35 percent. It must be noted that these numbers do not reflect inventory changes. For the past year and a half no inventory records have been kept and until very recently inventories had not been taken for some time. For many food operations this is a major issue. In the future, management will ensure that inventories are taken on a regular basis. Thus, in the future, it is reasonable to assume that McMurphy's Grill will be able to maintain the industry average of 35 percent cost of food and an overall cost of sales in the range of 30 percent.

## Operating Expenses

It is rather obvious, when looking at Appendix L (Historical Income Statement), that the Operating Expenses are where much of the problem is. The high level of operating expenses can in part be attributed to the high salaries/wages. The number of employees working is far more than a regular operation would utilize. In fact, an operation the size of McMurphy's might have four people working in addition to the Manager and the Kitchen Manager. For McMurphy's, the number is usually around ten people. Thus, in the Pro Forma Income Statements (Appendix O and P) the cost of training has been deducted from the Operating Expenses and noted separately to give a better reflection of the restaurant operation's performance.

In reviewing some of the operating expenses for 1993 and 1994 it was obvious that expenses for the entire building had been charged to McMurphy's Grill. The building, which had been donated in 1993, has two other floors (one of which had been occupied for a part of 1993) which can be rented out for office space. This practice, of charging the entire building's expenses to McMurphy's, had been at the direction of the Executive Director. This practice has been reversed with the arrival of a new Executive Director and so for FY 1994 an attempt was made to deduct expenses, or a portion of them, that did not directly relate to the operation of the restaurant.

An attempt has also been made to better organize these categories for the sake of industry comparisons in the Pro Forma statements. In the preparation of the Pro Forma Income Statements, an attempt was also made to review expense items with industry averages and as a result reduce some line items. In the past, budgets have been prepared based solely on historical data without consideration for what might be reasonable for a restaurant operation the size of McMurphy's Grill. Appendix P depicts line items as a percentage of sales, which will be useful in making future decisions. For the most part, the Pro Forma Projections are in line with the industry averages or are at least heading that direction. Appendix P (Pro Forma Income Statements — 3 year summary) highlights this point when looking at the Operating Expenses as a whole. As a percentage of sales, these expenses are decreasing significantly over the next three years. The industry average indicates that





Operating Expenses usually average about 53.4 percent of sales. At least now, McMurphy's is heading in the right direction. It is recommended that management continue to review industry averages in the future for a better understanding of its performance and to stay ahead of its competition.

One last note, most of the fixed expense projections reflect an inflation rate of approximately 3.5 percent. Variable expenses are somewhat less than the expected changes in sales, but much higher than the 3.5 increase per year applied to most of the fixed expenses.

## Income Taxes

Because McMurphy's Grill is a part of a nonprofit entity and any profit that is reaped will be channeled back into the program or into the programs at St. Patrick Center, no income taxes will need to be paid. This assumption flows throughout all the financial analyses.

## Balance Sheet Cash Flow

Finally, a few notes about the Balance Sheet and a further explanation of McMurphy's Cash Flow assumptions. Appendix Q presents the Pro Forma Balance Sheet. Because McMurphy's Grill is categorized as a nonprofit operation, things are presented in a somewhat different manner. Fund Balances reflect what a for-profit organization would consider Owners Equity.

The Balance Sheet reflects very little activity because the accounting procedures for St. Patrick Center and McMurphy's Grill implement a cash-based system. While some of the parties are on a receivable basis, they are usually collected within a month. The same can be said about the payables. Invoices are paid as they are received. Cash flow is not a significant issue for St. Patrick Center or McMurphy's because of its large resource base and so the timing of receivables and payables is not a problem.

On the balance sheet, the cash reflects the balance of a grant received from McDonnell Douglas as well as other smaller contributions at the outset of this project. Further contributions will be solicited as these funds run out, primarily to cover the cost of training. The property and equipment line reflect a portion of the contribution of the Lucas Plaza building. Thus is seen as an asset for the restaurant as no rental payments must be paid out, thus it is important that it be documented. This valuation is one-third of the total value of the building, land and equipment that had been contributed. Depreciation has been deducted for the building and the equipment.

The cash flow, as seen in the cash line, takes into consideration the declining designated fund balance as a result of restaurant losses. Keep in mind that St. Patrick Center has been extremely successful at fund-raising and is confident that it can receive corporate support to cover the cost of training. However, because we have included depreciation in the expenses, which is not a cash item, it has been added back in to reflect a non-cash item. The loss which was used in this calculation was the Operating Loss and thus does not include the reduction of the loss by the amount of the training costs. Refer to Appendix R for a review of Cash Flow projections.