



Restaurant (Nonprofit)*

BUSINESS PLAN

M C M URPHY ' S G RILL

St. Patrick's Center
1200 6th St.
St. Louis MO 63106
(314)621-1283

****Revised September 1995***

This business plan has not been disguised in any way. It is the revised version of the plan that appears before it. Due to its nonprofit nature, this business is subject to different stresses than the average restaurant. However, it has achieved significant strides and is an example of a venture whose success is due in part to the clarity of the original strategic business plan. Successes resulting from initiatives outlined in the previous plan are discussed here.

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EXECUTIVE SUMMARY

With the fifth anniversary of the opening of McMurphy's Grill fast approaching, there is much reason to celebrate. As a result of a successful implementation of the Strategic Business Plan, developed in the Spring of 1994, sales are up over 42 percent and the number of customers per day has increased 21 percent. In addition, cost of sales (as a percentage of sales) has declined 4 percentage points. While operating expenses increased 18 percent, primarily as a result of efforts to increase sales revenue, it did not increase at the same rate as sales, thus contributing to the improvement in the profitability of the operation.

Opening its doors on December 3rd, 1990, McMurphy's has set about the task of making people without homes, but with diagnostic psychiatric labels, into food servers and cooks. Without a profitable business, or at least reasonable loss, the mission of McMurphy's will not be achieved. Prior to the development of this Strategic Business Plan, the business was experiencing a serious trend over the previous few years of declining sales and increasing costs. Over the past year, significant strides have been made to reverse these trends and improve the viability of the operation.

Perhaps the most difficult task an endeavor of this kind faces is to be able to balance both sides of the coin—the mission and the business. An organization's focus on its prime objective can easily be lost in the day to day operation of the business. While the business aspect has experienced significant growth, the Employment Training component has not achieved desired results. A better balance will be the focus of the coming year.



The staff of both McMurphy's Grill and St. Patrick Center have worked closely to successfully implement many of the components of the original Strategic Business Plan as well as initiate other ideas. A review Fiscal Year 1995 reflects the initiative, creativity, and dedication of the staff.

THE COMPANY AND THE CONCEPT: A YEAR IN REVIEW

McMurphy's Grill, a restaurant located at the corner of Lucas and Eleventh streets in downtown St. Louis, will celebrate five years in operation on December 3rd, 1995. Considering the significant decline in sales and continual increase in costs during the three years prior to 1994, management recognized the need to develop a plan of action aimed at reversing these trends. In the Spring of 1994 a comprehensive strategic business plan was developed with implementation beginning with the start of the new fiscal period, July 1, 1994. After one year the results of the successfully implemented plan have far exceeded most of the goals originally established in the plan:

- A 42 percent increase in total dollar sales — compared with a projected increase for year one of 30 percent
- A 4 point actual drop {a 10% improvement} in cost of sales
- Operating expense increased only 18 percent over Fiscal Year 1994 compared with the 42 percent increase in sales

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. 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 innovative transitional employment program has provided an opportunity for 86 men and women, thus far, to learn valuable employment skills.

This first year of implementation of the strategic business plan has noted significant improvements in the profitability of the restaurant business. The operation of McMurphy's Grill provided a major challenge to the staff of St. Patrick Center, whose primary expertise has been in the social service arena. Several factors have contributed to this challenge, including changes in the management personnel at McMurphy's and the administration at St. Patrick Center, prior to the written strategic plan. These personnel changes, without a written direction, had a significant impact on the operations of the restaurant. In addition, the Restaurant Business component lacked the involvement of someone with business knowledge in the day-to-day operation of the facility. This resulted in a lack of emphasis on the business aspect of McMurphy's. Another major factor affecting the operation of the restaurant was the reality that McMurphy's Grill is only one of St. Patrick Center's 14 programs and thus does not have the concentrated effort that many small restaurant operators employ.

While not totally eliminating the challenges faced by St. Patrick Center in its operation of McMurphy's Grill, the in-depth strategic business plan has made them manageable. This business plan focused primarily on the operational aspects of McMurphy's Grill, defining McMurphy's as two distinct, but interrelated functional organizational units: one being the Restaurant Business component and the other being the Employment Training component. This separation has helped to get a clearer picture of each component, but most especially the restaurant business. The revised organizational structure has improved communication and shored-up reporting procedures, thus contributing to better management of the restaurant business component. Clearly defined marketing and financial objectives have generated creative initiatives which have resulted in expanded opportunities.

Lacking in emphasis during this past year, however, has been the Employment Training component. An incentive program developed for the manager and kitchen manager, focuses on improved sales, reductions in cost of sales and the overall profitability of the operation. This has resulted in less effort being extended to the training process and a slower movement of trainees through the program in order to maintain a more stable and efficient workforce—resulting in personal financial gains for McMurphy's manager and kitchen manager.



Recognizing the problem presented by the newly established incentive program, an added dimension to the incentive program being developed for the coming fiscal year will encompass the training aspect. It is hoped that this will achieve a better balance, thus ensuring that the mission of McMurphy's Grill is maintained.

HIGHLIGHTS OF YEAR ONE

Industry and Market Analysis

McMurphy's Grill falls into two major 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 be classified among the vocational rehabilitation programs.

Both industries have remained fairly consistent over the past year, with little changes in either market. Three points which have possible future impacts, however, are worth noting:

1. With a football team having been secured and completion of the new football stadium in sight, prospects of opening on Sunday during home games is under serious consideration. Being located within three blocks of the new football stadium gives McMurphy's an added advantage over many of its competitors.
2. The LeDe jeuner Deli and Bakery, McMurphy's closest competitor, has closed its doors. This facility has assumed many names and been operated by various business operators, without success. This reduces, to some degree, the direct competition for both the lunch time business as well as for box lunches.
3. With the threat of funding cuts looming at the federal level, McMurphy's Grill is in a better position than most of its competitors in respect to its Employment Training component. With not having to rely on federal or state funds, McMurphy's is in a position to survive the ax. The endeavor may face, however, increased competition for private resources which may have a significant impact on its continued survival.

Strategic Plan: A Year in Review

McMurphy's Grill, as previously noted, houses two functional organizational units: the Restaurant Business component and the Employment Training component. Each is viewed as distinct, but interrelated. As defined in the original strategic business plan, the mission of the Business component is:

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

Because of the distinct nature, however, of each component, separate strategic plans were developed. However, the Operations and Management section has served to link the units, providing operation guidelines which have resulted in improved management and efficiency. Successful implementation of the plans have achieved enormous results, however, some of the planned actions have been revised while others have been delayed or eliminated.

The Restaurant Business Unit

The results of the past year have been tremendous:

- A 21 percent increase in the number of lunch customers per day from 69 customers per day to 83; strategic plan calls for averaging 97 per day by the end of year three
- Significant increases in revenue (over fiscal year 1994) derived from all three service areas:



LUNCH: 20 percent
BOX LUNCHES: 152 percent
PRIVATE FUNCTIONS: 76 percent

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Specific actions which led to the successful accomplishment of the established goals and objectives flowed out of the targeted goals and action steps outlined in the written strategic business plan.

Marketing

Attractive New Menus were prepared for both the Lunch and Box Lunch business. With a new attractive cover, for which a donation of the design was secured, the menu depicts a few new items and selective increases in the prices.

The Celebrity Host Program continues to expand with an increase in the number of CEO's and other top level executives joining the ranks. Being given much of the credit for the reversal of the prior trends in Lunch revenue, the Celebrity Host program has had the additional impact of increasing the revenue derived from Box Lunches and Private Functions. There has been an increase of 50 percent in lunch business on Wednesdays, which is the day designated for Celebrity Hosts.

Regular Marketing Meetings are now conducted every other week to discuss upcoming events and strategies as well as to assess the previous two weeks marketing efforts. Personnel involved in these meetings include:

- McMurphy's Grill manager and kitchen manager
- St. Patrick Center's Business Director (who is now responsible for the supervision of the Restaurant Business operation).
- A member of St. Patrick Center's Board of Directors (and former Executive Director of St. Patrick Center)

Marketing Consultant

Significant Increases In Revenue Derived From Private Functions can be attributed to:

1. An increase in direct-mail efforts targeted at specific audiences, particularly church groups and lists of friends and co-workers submitted by each Celebrity Host.
2. A "Show-Me" party, held in the fall, which provided an opportunity for potential patrons to experience the food, atmosphere, and service offered by McMurphy's Grill. A second "Show-Me" party is planned for this fall.

The Schedule of Events (Marketing Efforts) was reduced to focus on specific areas each Quarter:

Quarter 1 of FY 1995: Focused on Celebrity Hosts program
Quarter 2 of FY 1994: Focused on Private Functions;
resulted in an increase of 80%
over 1993 calendar year
Quarter 3 of FY 1995: Focused on Box Lunches
Quarter 4 of FY 1995: Physical plant

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Customer Evaluation Surveys have been used on occasion with very positive responses. They will continue to be used periodically in order to maintain a high level of customer satisfaction.

Advertising Media has remained fairly constant with articles being strategically placed in Downtown St. Louis



Inc. A major source of free advertising during the past year has come about from press releases announcing each week's Celebrity Host.

Sales Promotions for Secretary's Day, St. Patrick's Day; special promotions welcoming employees of new businesses locating in the area and other special promotions continue to attract new business. A means of measuring response to specific promotions has not yet been developed, but observation suggests a positive reaction, although not coming close to the success that the Celebrity Host program has achieved.

Operations/Management

An Incentive System was developed and implemented during this first year. This system has been attributed with increasing the cooperation, efficiency and creative flow of ideas from McMurphy's manager and kitchen manager. The system is outlined below:

Incentive Compensation System

A competitive incentive compensation program was developed during fiscal year 1995 for the manager and kitchen manager of McMurphy's Grill. The system is a two-tier system based on increased Private Function business as well as improved overall results:

LEVEL 1: Both the manager and kitchen manager receive a percentage of the gross receipts from a Private Function (Private Parties).

- The Manager receives 5 percent
- The Kitchen Manager receives 4 percent

LEVEL 2: Overall Operations: This part of the compensation program was partitioned based on two components:

- Sales (60%)
- Expense (40%)

The incentive ranged from 0 percent up to 15+ percent for "Outstanding" performance, which was based on specific levels of sales and expense measurements. Thus, achieving the Outstanding level of sales would provide a 9 percent ($15\% \times 60\%$) bonus of base salary. Similarly, Outstanding in Operating Costs (for the Restaurant Manager) or Food Costs (for the Kitchen Manager) would provide an additional 6 percent ($15\% \times 40\%$) bonus based on the base salary. The incentive was paid quarterly based on projected annual performance.

Note: The fiscal year 1995 performance exceeded Outstanding overall for both managers.

Kitchen Facilities Reorganized in order to improve the efficiency and productivity of the operation. It also facilitates the increase in the number of customers served, especially on days when Celebrity Hosts are present.

McMurphy's Grill Staff Involved in the Budgeting Process. They are responsible for helping to establish financial targets in addition to defining action steps toward their accomplishment.

A Computerized Inventory System, along with other incentives, has helped to reduce the cost-of goods sold.

Supervision of the Restaurant Business has shifted to the Business Director which has helped to focus attention on the business side of things.

Increased Staffing for McMurphy's, in terms of management personnel, is another consideration faced by McMurphy's as business continues to increase. A full-time position has been added in order to meet increased demand for McMurphy's various services and to assist in the training of program participants.

Reduction of the Bar Area was completed in March. It provided a 20 percent increase in seating capacity (from 80 seats to 96 seats).

Plaza Upgrade is currently in process. Expanded outside seating in the plaza area will further increase the



seating capacity on clement days.

Financial

A rough draft of a Meal Costing Report was developed prior to the new menu being printed. The Business Director has plans to computerize this task, in the future, so that it can be accurately and efficiently maintained.

Cost of Goods Sold goal will be set at 35% of sales, rather than the original estimate of 30%. While it is hoped that the 35% ratio can be reduced, it is not expected to reach much below 33 or 34%. The computerized inventory system will help in the management of food costs, but it is not expected to reduce costs to the original goal of 30%.

Significant increases in promotion expenses is a part of the efforts to increase sales, particularly the Celebrity Host program. This particular line item will be carefully monitored by the Business Director, Manager of McMurphy's Grill, and the Marketing Consultant. Daily Receipts Report, Invoices, and other Daily Reports are maintained on a regular basis with management of both McMurphy's Grill and St. Patrick Center receiving regularly detailed sales reports, monthly income statement, and explanation of cost variances.

Sales are expected to reach \$220,000 during FY 1996. This is \$10,000 above what was originally projected.

Future Considerations

A Large Sign or Printed Awning is still under consideration but is not a high priority considering McMurphy's recent success. At this time management does not feel this outlay of financial resources will result in equal benefits.

Parking remains an issue and has become an even more severe problem with increased commercial business in the nearby area. Due to the increased demand for parking, lot owners are not very receptive to reduced rate arrangements. However, it apparently has not resulted in a loss of business as originally anticipated.

Lunch Of The Month Club and Sales Promotions For Frequent Diners has not been instituted considering the level of success McMurphy's has attained during the past year. Management has determined that, at this time, it is not necessary to expend resources for this type of promotion. However, should business begin to trail off this particular promotion will be considered in order to attract return customers.

Corporate sponsorship to maintain the training portion of the program is yet to be established since funds have continued to be available to cover the shortfall. However, funds are anticipated to be depleted by the end of FY 1996. Thus, this effort will be a top priority for St. Patrick Center administration and Board of Directors for the coming year.

THE EMPLOYMENT TRAINING UNIT

Along with other St. Patrick Center programs, McMurphy's Grill provides a continuum of services which moves the client from the street and receiving no services, to competitive employment and independence. The process includes a pre-training portion which begins with the selection of appropriate mentally ill or recovering substance abuse clients by a counselor. These clients complete a series of pre-training classes before placement at McMurphy's. Clients are then assigned to an appropriate position at the restaurant and are to receive proper on-site training. This phase of the training includes basic skills such as washing dishes and busing tables, but hopefully lead into more complex positions such as waiting tables. The client is encouraged to move on to competitive employment only when fully emotionally, psychologically, and socially ready to do so.

As has previously been identified, the Training process has been somewhat weak during the past year. While the pre-training aspect of the program has been continuing to operate in much the same way, the on-the-job training has been extremely limited. With the focus on increasing sales, training has not received the attention it should. The end results reflect this fact. Instead of the estimated 25 participants for 1995 with 10 successfully



moving out of the program, there were only 19 new employees with four attaining permanent employment and three others entering another training program.

While the results are not devastating, they do reflect a lack of balanced emphasis. By including a measurement of successful outcomes as part of the Incentive program, the Employment Training segment should gain the appropriate attention. The Business Director and the Executive Director of St. Patrick Center will continue to assess this situation and work toward a more equal balance of emphasis among both segments of the operation.

MCMURPHY'S GRILL INCOME STATEMENT

	Final FY92	Final FY93	Final FY94	Final FY95
Sales:				
Food & Beverage	\$167,369	\$146,392	\$136,197	\$193,954
Cost of Sales:				
Food & Beverage	65,170	52,422	56,707	73,647
% of Sales	39%	36%	42%	38%
Gross Profit Margin	102,199	93,970	79,490	120,307
Operating Expenses:				
Salaries	81,791	77,929	100,616	115,524
P/R Taxes/benefits	21,948	20,732	21,522	18,394
Utilities/Bldg Exp	9,707	22,792	22,172	23,579
Telephone	1,857	1,910	2,392	2,019
Supplies	12,713	16,906	17,514	20,394
Postage	266	0	1,555	3,666
Stationary/Prtg	912	195	2,037	8,147
Equip Purchases	879	1,169	411	2,940
Repairs/Rent Equip	5,027	3,560	2,169	3,031
Local Transport	457	464	565	428
Advertising/Pub	8,940	8,170	9,811	10,873
Business Svc's/Fee	7,820	13,348	6,544	10,140
Insurance	2,828	3,290	2,679	2,995
Membership Dues	125	325	315	289
Licenses & Permits	949	675	1,439	3,519
Aid to Individuals	0	250	20	0
Total Expenses	156,216	172,212	191,753	226,438
Operating Profit	-54,017	-78,242	-112,263	-106,131
Other Income:				
Restricted Contrib	38,496	44,135	0	3,354
Special collection	0	8,866	0	0
Grant Revenue	4,063	2,229	25,000	41,200
Miscellaneous	0	180	943	757
Rent Revenue	0	2,000	0	0
Total	42,559	57,410	25,943	45,411
Other Expenses:				
Legal Services	0	47,945	3,272	0
Net Profit (Loss)	(\$11,458)	(\$68,777)	(\$80,592)	(\$60,720)
Designated Funds:				
End of Period	\$142,405	\$142,648	\$126,578	\$97,681

Final FY 92 Final FY 93 Final FY 94 Final FY 95

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Food & Beverage \$167,369 \$146,392 \$136,197 \$193,954

Cost of Sales:

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% of Sales 39% 36% 42% 38%

Gross Profit Margin 102,199 93,970 79,490 120,307

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P/R Taxes/benefits 21,948 20,732 21,522 18,394

Utilities/Bldg Exp 9,707 22,792 22,172 23,579

Telephone 1,857 1,910 2,392 2,019

Supplies 12,713 16,906 17,514 20,394

Postage 266 0 1,555 3,666

Stationary/Prtg 912 195 2,037 8,147

Equip Purchases 879 1,169 411 2,940

Repairs/Rent Equip 5,027 3,560 2,169 3,031

Local Transport 457 464 565 428



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Advertising/Publ	8,940	8,170	9,811	10,873
Business Svc's/Fee	7,820	13,845	6,545	10,140
Insurance	2,825	3,290	2,670	2,995
Membership Dues	125	325	315	789
Licenses & Permits	949	675	1,439	3,519
Aid to Individuals	0	250	20	0
Total Expenses	156,216	172,212	191,753	226,438
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