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IMPROVING GROSS PROFIT MARGIN IN A QUICK SERVICE
RESTAURANT

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The purpose of this thesis is to try help implementing the corporate strategy in a quick service restaurant environment by offering practical examples. The objective is to improve the profitability of the case company by the management of the sales team. Questions to be answered are how the gross margin can be developed and what results can be gained. Some of the key concepts of this thesis are gross margin and sales management, restaurant profitability and implementing corporate strategy into practice.

This thesis looks into finding ways for developing gross margin within the case company and examine what kind of results can be gained. There are three stages taken into practice in the case company; improving the visibility of high gross margin products, teaching proactive sales techniques and setting goals supporting the improvement of gross margin.

The theoretical foundation of this thesis includes subjects of gross profit, strategy, profitability, goal setting, quantitative and participant observation research methods. It was collected using various academic journals, books and websites. In addition, information was gathered by observing.

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1. INTRODUCTION

This thesis looks into finding cost-efficient ways for improving the gross margin in the case restaurant. There are three aspects that are looked into: The first is to redesign the visibility of those menus with high gross margin euros. The second is by defining sales practices that will increase the gross margin. The third is to measure the gross margin and try to decrease the direct costs by improving the process of producing products.

Numerous studies have pointed out the importance of gross margin management in the profitability of a company (Stasz, 2003; O'Mara, 2015). Even though a company is selling even more than a year before, the profits can still be sinking. The reason behind this may be in the gross margin. Both gross profit and gross margin reflect what a company earns from its sales. Gross profit is the difference between net sales and cost of goods sold in euros. Gross margin shows as a percentage how well a company uses its resources. When gross profit is growing, it either illustrates better use of resources, growing sales or lower production costs. (Investopedia 2015).

The main focus of this thesis is in the products that are more profitable in gross profit euros instead of high gross margin percentages. Gross margin conveys the profit gained from the product sold after direct costs. This profitability, in a restaurant, can be improved by making sure, that every portion is prepared with care and recipe cards are used. Profitability should not be improved to the customer's expense, nor by reducing food raw materials so that the quality expectations are no longer met. (Accounting Coach, 2015).

As the business environment is constantly changing, it becomes important for the company to prepare for these changes. This is why strategies are developed; to survive in the highly competitive environment. The word 'strategy' can be defined as a plan or method for obtaining a specific goal or result. (Anklesaria 2008, 30). Treacy and Wiersema (1995), on the other hand, describe business strategy as operational excellence, product leadership, and/or customer intimacy. (Bentley, Omer & Sharp 2013). The purpose of strategy is to build a successful business plan in a competitive

environment, to face the challenges of competition and to ensure that a corporation survives by helping it adjust with the changing business environment. (Baisya 2010, 5-7). The basic objective of any strategic plan is to achieve superior level performance in relation to the competition.

The most important framework for this thesis is set from the strategy of the case corporate set for the years 2015-2018. The case corporate has a set of seven development programs mentioned in the strategy for the years 2015 to 2018 in order to maintain its competitive position in the area of Satakunta. Increasing sales is one of the strategic challenges, which is met by developing the customer experience, but also by increasing the average purchase and frequency of the visits in stores. Managing and increasing the gross profit is the second of the strategic challenges, which means that sales management skills need to be developed furthermore and sales processes carefully monitored at all time. (Case Corporation's strategy 2015-2018).

1.1. Company description

The case company of this thesis is a quick service brand that operates in the fast-moving goods and services industry. This case brand operates together with two other quick service brands, creating one restaurant also known as food court, sharing the production facilities and the staff. This means, that when analysing the results, some of the results must be analysed as whole, whereas the other results are specific to this brand studied in this thesis. Each brand also belongs to restaurant chains operating nationwide, which means that all the products are the same in all the restaurants, and also the marketing and administration are centralized.

The case company has a shared staff of 13 people including a restaurant manager, 3 restaurant supervisors and 9 employees working in the case company. The yearly revenue is approximately 500 000€. The case company sells products from the range of one to ten euros. When selling prices are cheap the success must be made from volume. When production volumes go high and sales euros stay low, it is also important to manage the process behind so the money is not wasted. (Company Description and Income Statements).

1.2. Research method

Research methods are often divided into two main types: quantitative and qualitative methods. Case studies and researches often use various methods for collecting data. No matter what method chosen, all of them require reviewing the literature, defining research questions and analytic strategies, using formal data collection protocols or instruments, and writing a good research report. (Yin 2004, 3).

This thesis combines two research methods of quantitative research and participant observation. Aliaga and Gunderson (2002), describes quantitative research as ‘explaining phenomena by collecting numerical data that are analysed using mathematically based method’. In this thesis, numerical data is collected from the case company’s income statements and cash register reports. This data then goes through an analysis using mathematically based methods in this thesis. (Muijs 2004, 1-2).

Observation is possibly one of the key instruments when acquiring knowledge. Participant observation is a qualitative research method that has been used as a data-collecting tool about people, processes, and cultures. It is a method of collecting such data that reveals the reality of daily life in a specific environment, where researchers may observe actions/interactions, behaviour and listen to conversations while observing the context (particularly the time and location) in which these actions are undertaken. Participant observation is the process enabling researchers to learn about the activities of the people under study in the natural setting through observing and participating in those activities. (Bloor & Wood 2006, 71). In theory, interviews are the primary method of collecting data but participant observation also gives a distinctive insight, revealing what people are really doing, instead of what they say they are doing. (Bloor & Wood 2006, 28).

1.3. Choosing the topic

The purpose of this thesis is try help implementing the corporate strategy in a quick service restaurant environment by offering practical examples. The aim is to improve

the profitability of the case company and to help managing the sales teams on a daily basis.

Because many companies are facing challenges in business growth and as the sales are decreasing, it is important to try to find ways for improving the profitability and increasing sales with low investment costs. This thesis should be something that anyone can take into practice with low costs. Sales, gross margin and labour costs are the first three figures that can be affected.

Some aspects are left out from this thesis. As there are three fast food brands operating in the same location, sharing the production facilities and the staff, employee costs are left out because of shared staff. Instead only revenue, gross margin and net profit are looked into. As the case brand is a nationwide restaurant chain, pricing, marketing and suppliers were also left out from this thesis, as decisions regarding them are done centralized and therefore a specific restaurant or its staff can't affect these decisions.

For the same reason, topics that everyone can contribute to with their own actions were included to this thesis: visibility of the high margin products, teaching proactive sales practices for improving the gross margin, careful and measured processes when producing the products, as well as setting goals to support the development of the gross margin.

2. GROSS PROFIT MARGIN

Gross margin has a meaningful role in the profitability of a company. If the business cannot make a decent gross margin from products, it's going to be very difficult to make a net profit. (Hirst 2013). Gross margin represents as a percentage how much a company gains from total sales revenue after the production costs associated with producing the product. The higher the percentage is, the more the company gains from each euro of sales towards its other costs. (Investopedia 2015).

Gross margins can either be defined as both gross profit euros and gross margin percentage. Gross profit indicates the profit made per unit sold after production costs as euros. Gross profit is net sales minus the cost of goods sold. Gross margin, on the other hand, is the ratio of gross profit to total revenue expressed as a percentage. To calculate the gross margin revenue and costs of goods sold need to be defined. Figure 1 defines the formula for calculating the gross margin. (Investopedia 2015).

Figure 1. Formula for calculating the gross margin (Investopedia 2015)

$$\text{Gross Margin (\%)} = \frac{\text{Revenue} - \text{Cost of Goods Sold}}{\text{Revenue}}$$

The restaurant industry is low profit margin yet highly competitive. The levels of gross margin can vary a lot from one industry to another depending on the business. Indicative gross margin level in a restaurant industry is typically between 55-80%. This means that (with a gross margin of 80%) from every euro sold, 0,20€ is spent in the food raw material costs and the company would retain 0,80€ to be put towards paying other costs, such as salaries, rent, electricity etc. (Case Company's operational accounting instructions 2014).

When managing the gross profit, it is essential that each product is prepared by following the recipe cards carefully. Scales must be used to ensure the right amounts of food raw materials. By doing so, the use of direct costs is more economical and more systematic. By using the scale actively incorrect portion sizes can be prevented. (Päällikön Käsikirja of concept Y 2011).

It is often discussed whether one should sell products of high gross margin euros or percentages. One good guideline for this would be that the bills are paid with euros, not with percentages. As an example, a cup of coffee is sold for 1,70 euros and has a gross margin of 96%. The company would retain 1,63€ from every cup of coffee sold. Product B is sold for 5,90€ and has a gross margin of 76%. In this case, 4,48€ is received after taking off the direct costs. This means, that three cups of coffee needs to be sold in order to receive the same gross profit as in selling just one product B.

One sale instead of three is more cost-efficient. (Case corporate's supervisor training 14.10.2014).

2.1. Costs of goods sold

Effectiveness and profitability in the restaurant industry is about cost management. When food costs increase, the gross profit decreases. O'Mara defines business growth as increasing profit, to which she sees two options: either by increasing revenue or decreasing costs. If the company is not able to maintain its gross profit, the company may find itself in a situation where sale may be growing while the business loses money. (O'Mara 2015).

Costs of goods sold refer to materials and other expenses related to the production of a product. One of the biggest issues in financial management is the lack of understanding of a product or service's true costs. It is often thought of as just the raw material cost of the product or service. When calculating costs, items such as freight inwards and packaging are often overlooked. It means when pricing a product and calculating a margin the true cost are not actual. In this case the gross margin suffers and this reduces what's available to cover fixed costs. (Hirst 2013).

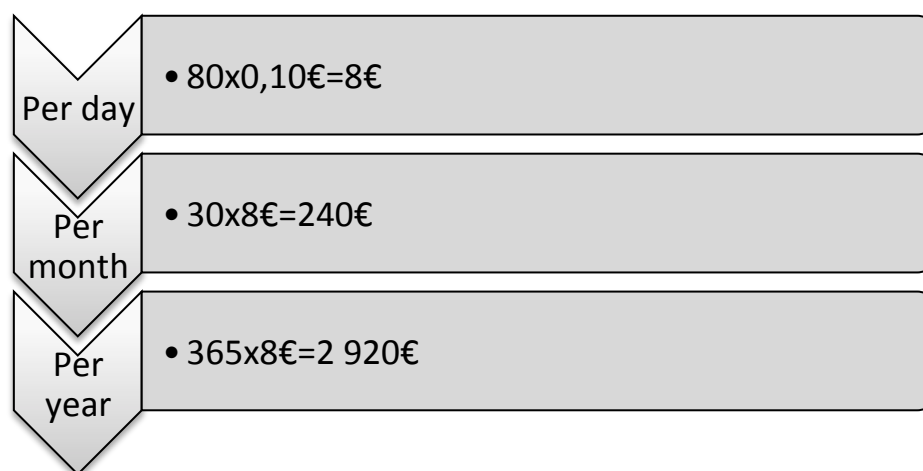
One role of a restaurant manager is to negotiate the purchase prices in order to keep the production costs as low as possible and the gross margin as high as possible. As the case study company belongs to a nationwide quick service restaurant chain, the negotiations of prices are done centralized but at the same time, the chain also has its own production.

One way for increasing profit is to work on the processes required to make and sell a product, thereby making production at its best cost. This isn't necessarily about cutting costs but more about developing processes that are followed every time a product is made and sold. In other words, improving productivity or efficiency. (O'Mara 2015). In a quick service restaurant, profitability can be affected by even small everyday actions. Working carefully in a restaurant is crucial in order to keep the extra direct costs under control. In other words, if too much food raw materials is used

when producing a product, the production costs go up. This is why it is essential to carefully follow the recipe cards and make sure, that the amount of food raw materials are as expected.

If scale is not used, and 20 grams of particular food raw material is added, the production costs go up 0,10 euros per menu. As the production costs go up, the gross margin lowers by 1,3%. As is described in Figure 2, if 80 portions are sold daily, 20 grams per menu can cost a lot when multiplied. (Tuotekateraportti 2015, 150131):

Figure 2. Describing the costs when portion sizes are incorrect



As can be seen from the example, one ingredient can cost almost 3 000€ extra a year. There are hundreds of food raw materials in a restaurant, dozens of which need to be measured when producing a product. If scale is used hardly at all, this 2 500€ can easily become 25 000€.

There can be seen two aspects in incorrect portion sizes. Firstly, it is not good customer service if the portion sizes are different each time the customer chooses to use the services of the restaurant. The quality must be consistent every time the customer buys the product. Secondly, the incorrect portion sizes make the product unprofitable if too much raw materials are used. By doing so, the direct costs of the product go up decreasing the gross margin. This is why it is important to tie the correct por-

tion sizes to the case company's sales management process, which is discussed in the next chapter of this thesis. This small thing also has an effect on implementing the strategy: satisfied customer come more often to the restaurant, buy more and increase the sales, whereas profitability in the process of preparing the product increases the gross margin.

2.1.1. Food waste

Food waste is a must in a restaurant as in if there is food there is bound to be waste, especially in cafeterias and with buffet tables. The amount of food waste can be affected in many ways in a quick service restaurant. According to a study written by Jones, food waste in fast food restaurants can be up to 9,55% of the total food used. One reason for this high percentage in the fast food industry is because of the business idea of delivering the service "Just-In-Time". (Jones, 2004).

The waste, made in restaurant, can be separated into two: pre- and post-consumer waste. The pre-consumer waste is used to describe waste made in the kitchen and it could be things such as incorrectly prepared food, spoiled food, trim waste, or simply overproduction. Pre-consumer waste constitutes an estimated 4-10% of purchased food raw material, becoming waste before it ever even reaches the customer. (endfoodwastenow.org 2015). This waste can be seen as expensive as it has costs without making any money. The case company also has goals set by the chain management for food waste. The case company's actual food loss in February 2015 was approximately 3,6% of revenue. This number takes into notice both pre- and post consumer waste as well as incorrect portion sizes. (Hävikkiseuranta 02/2015).

Once the food reaches the customer, the customer makes the decision on how much of the portion to consume and what is left uneaten becomes waste. This waste is referred as post-consumer waste. (endfoodwastenow.org 2015). If a restaurant is having a buffet table, one way to try to reduce the post-consumer waste is to change the ladles into smaller ones. Post-consumer waste can also be made smaller by thinking how to place the food to the buffet table. More expensive dishes should be placed behind and last so that the customer first takes cheaper food onto the plate.

2.1.2. Non-food material

Non-food material in the fast food business has a significant role, as most of the products are served from disposable containers. Packaging material is a must, as it protects the product.

Non-food material is items such as napkins, straws, take away cups, paper bags, wrapping material etc. In a quick service restaurant, the use of non-food material is also mentioned in the recipe cards. In the case company, the use of non-food material is taken into notice and also defined by the nationwide chain organization. It is important that the employees know how to handle the packaging material so that the production costs don't go too high. It is also regulated how many napkins to give with each product to the customer. (Konseptin X Käsikirja 2015, 15).

One example about the importance of costs of non-food material can be given. It takes 1,63€ to produce menu A, from which the packaging material costs 0,15€. This means that 9,2% of the costs is spent to packaging material. Every time a customer servant adds an extra non-food material to the menu, the production costs go up and the gross profit goes down. (Varastoraportti 141231). Implementing few extra questions into the sales process can save some money: not all customers need disposable forks or spoons with them, so why give them to every customer. The customer servant can always ask whether those extras are needed or not. (Konseptin X Käsikirja 2015, 14).

2.2. Managing the restaurant inventory

One way to control the gross margin is by managing the restaurant's inventory regularly and by making sure that the waste is always registered correctly. This means that the quantities of the products in the inventory are calculated. Inventories should be monitored daily in order to keep an eye on the changes and differences as quickly as possible.

In the case company, the inventory of the products is done daily with a help of soft-

ware. This software has all the quantities of materials; those received, sold and remaining in the storage. If there are differences in the food raw materials in the inventory, compared to what there should be, the company has either received a wrong amount of it, or the employees have misused the raw material. In order to avoid mistakes like these, one should always check the amounts ordered and those that have been received. If there is a mistake, the company has 24 hours time to make reclamation. Also, if the incoming material does not meet the quality standards, ie. The package is broken, the best before date is too close etc., it should be sent back.

When unloading the order, FIFO (first-in, first-out) should be kept in mind in order to reduce the food waste and the extra costs it can cause. FIFO means that the oldest raw material is used and sold first. From the accounting point of view this means that the cost of the raw material appearing in inventory will be the cost of the was material most recently purchased. (Bierman 2010, 345-347). The use of FIFO is crucial in a restaurant where the raw material consists of food, which might go bad and easily become waste. Expired food raw material goes directly into the trash and will not produce sales euros.

By keeping the storage in order and by taking care of the FIFO unnecessary food waste can be reduced. It also helps working when goods are in their correct place and no extra time is used to searching.

After managing the inventory, answers to whether the sales process has been profitable or not can be found. Quality in the sales process improves profitability. Sales process is not just the moment where the customer servant takes the order. The process starts when the customer enters the restaurant and it ends when the customer leaves. After taking the order, the manufacturing process starts. (Päällikön Käsikirja 2011).

3. PROACTIVE SALES TECHNIQUES

Pro-active sales practices can be used for improving the gross margin. In other words, how the salesperson can try to sell products with higher gross profits. By definition, 'pro-active' means to be ahead of the game. It is someone who always thinks before she acts, and someone who is one or two moves ahead of the competition. (Miller 2009, 1).

Salespeople need to learn think like a customer and match the company's sales process to the customer's buying process. If the salesperson is proactive and really works the sale from the customer's perspective, any guessing can be left out from the equation. Being proactive means the salesperson is in charge of the situation and knows the next step of the customer. (Skip 2006).

Growing revenue helps improving profitability, as there are more options to work with when it comes to the fixed costs and managing them. This is why Sales Management has grown in popularity in the past few years, as the focus is in improving sales, average purchase and customer satisfaction. The revenue can grow by keeping in mind the Sales Growth Equation, which means that by increasing any one of the variables in the equation, sales revenue will increase. (O'Mara 2015).

Sales revenue =

Number of customers x Number of times they buy x Transaction value

In order to increase:

- *Number of customers*: company should work on increasing retention of its customers, generating leads, improving conversion rates.
- *Transaction frequency*: company should work on getting the customer to buy more often.
- *Transaction value*: company should work on increasing volume purchased and price paid.

3.1. Sales management

In today's challenging business environment companies are relying more than ever on the sales function to maintain and grow revenues. Sales Management is a management style, which focuses on improving sales techniques and sales operations. In Sales Management, all the effort is put towards attaining the sales objectives of a company. Sales Management is the process of formulating, implementing, and evaluating sales plans and monitoring the performance of the sales force. (Miller 2009, 8).

Sales manager is the person responsible of the sales and goals set for the day. Motivation, coaching, counselling, and mentoring are people-focused skills and traits that a good sales manager needs to have in order to get things done through others. Some of the sales manager's daily tasks include areas such as reporting, inspiring, forecasting, and performing sales reviews. Also sales goals and other performance indicators are typical to sales management.

The case company carries on the sales management style, which was taken into practice in 2011, and which is based on the study of Mika D. Rubanovitsch. In sales management, all the effort in the business is out towards sales. The sales process is put into smaller, manageable, pieces. The sales efforts are measured. All the focus of the company is in the sales: in improving the average purchase, in selling more and in improving the customer satisfaction. Happy customer brings more euros into the table.

3.2. Evaluation form

An evaluation form can be used as a tool for sales knowledge assessment. Sales manager leads frontline, as she needs to know how her employee can cope with the sales process. By participating in the customer service, sales manager understands better the actual sales process, but can also observe the employee at the same time and will be able to give this constructive feedback afterwards. Assessing employee's

sales skills regularly, the sales manager can ensure that the sales process is taken into practice as required. (Rubanovitsch & Aalto 2007, 138).

When observing, the sales manager should take notes based on the observation on how the employee handles the selling process. The employee must also assess how the employee performs during the selling process. The focus is not in finding mistakes but instead in developing the sales skills. (Rubanovitsch & Aalto 2007, 139).

One option for assessing the sales knowledge is by using the knowledge management model that is used in the case corporation. In knowledge management, knowledge is given a number rating from 1 to 4. Assessment is done together (employee and his supervisor) by discussing the observations made during observation. If there is disagreement on the rating of the knowledge between employee and his supervisor, the supervisor will make the final decision on the level of expertise. The intention of this measurement is not to indicate who is excellent and who is not, but to get the most realistic assessment of the level of knowledge. By doing so the educational efforts can be directed better. This scale from 1 to 4 has also been described in words in the model. (Knowledge Management of the case company 2013)

1 = NOVICE. Assists others and needs orientation.

2 = JUNIOR. Knows the basics. Works under supervision.

3 = MASTER. Knows how to make / use independently.

4 = EXPERT. Will be able to guide others and to develop activities.

3.3. Sales goals

One of sales managers jobs is to set goals for sales and monitor if the goals are achieved. Numerous studies have pointed out the importance of goal setting (Fu, Richards & Jones 2009; Wotruba 1989). Working with goals is an essential part of a manager's job, because management is a skill to get things executed through people.

When talking about sales, it should always have goals. Setting business goals should always follow the strategy of the company. This strategy is made concrete, chopped

into smaller goals (for example quarterly or monthly targets) and filtered so that the employees can understand it easily. After this filtering is the time to set the team and individual goals. It is important that everyone understands why his daily goal is important. (Carlsson & Forssell 2012, 145).

When setting goals in sales, it should be kept in mind that there are different kinds of goals. Goals can either be quantitative (such as sales goals in euros, gross margin goals) or qualitative (such as improving customer satisfaction, monitoring the customer feedback, trying to reduce customer complaints). Setting qualitative goals is often less, because it is thought that these are difficult to assess. It should be taken into account when setting qualitative goals, that when the results of the goal are carefully described and the objectives set, the easier the assessment of achieving the goals gets. Improving customer satisfaction as a qualitative goal is not described carefully enough, although it indicates the direction of the goal. Goals should always be able to be measured and accurate enough: Customer shall be served within five minutes of the arrival of the restaurant. (Yrittäjän Käsikirja 2005, 62-63).

Goals can be more than just daily sales goals and by creating other goals, is possible to create variety. These other goals are the ones that support the sales and the business. There are number of goals like this. We should try to set goals that support the profitability, develop sales but also improve the professional development of an employee. Today's alternative goals supporting the sales can, as an example, be long-term goals. Using different types of goals help to prevent the sales routines but also creates variability to one's work. In long-term goals one sales month can be seen as a match and working days as semi-finals. Using the same thinking, the employees can be seen as a sports team, in which case the employee's must have personal goals but the whole team must be seeking the same results. (Ojanen 2013, 139-144).

Many tasks are such that the results needed to carry out/ the results needed to achieve wide employee input/ a variety of different employee contributions. (Ojanen 2013, 139-144).

3.4. Sales Process in a Fast Food restaurant

The sales process in a fast food restaurant is different from restaurants serving to tables. In the fast food industry, the actual selling process only takes few minutes. First, the customer waits on line to be taken the order. The order is then taken. After the order, the customer servant only has few minutes time to collect all the products and give them to the customer. If the product is not ready, and has to be prepared, the preparation of the missing product should only take few minutes. The whole process should be gone through in less than 10 minutes. (Palveluaikatavoitteet 2013)

The sales process of the case company can have four steps from the sales management's point of view. (Case corporation's sales management strategy) These steps are:

1. Defining customer wants
2. Upside down selling and upgrading the product
3. Using names and descriptions
4. Selling more

3.4.1. Defining customer wants

Selling should never be forcing. Instead it should be about defining the needs of a customer and trying to find the best product to fulfil those needs. Defining the customer wants is one of the most important steps of the selling process. It seeks to discover the true needs of a customer. At its best it can have an effect on:

- Increase of average purchase
- Growth of sales
- Improvement of the customer satisfaction

During this step no products should yet be presented or sold but instead asking questions trying to find out what to sell later on. (Rubanovitsch 2007, 76-81)

Those sales persons that can define the customer's needs and respond accordingly may have a distinct advantage. A salesperson's ability to read customers and define their wants can have a positive influence, which effects on the salesperson's efforts to engage in adaptive selling and customer-oriented selling on performance. (Puccinelli, Andrzejewski, Markos, Noga & Motyka 2013, 357-359).

The purpose of defining the customer wants is to find out the current situation of the customer. This step is very helpful for the sales person in defining, what to offer later on. This is time for the sales person to ask what the customer would like to have and to try to find out all those tips and clues the customer gives about the product she is looking for. This requires patience, as the salesperson must always remember to let the customer tell what she wants and the patience to keep his mouth closed meanwhile. The selling process should always start with a greeting and every customer should always be greeted with enthusiasm and respect. The salesperson can use open-ended questions in defining the needs of the customer (why, what, how...). Eventually, the sales person should figure out the perfect product for the customer and offer it. (Rubanovitsch 2006, 76-81).

3.4.2. Upside down selling and upgrading the product

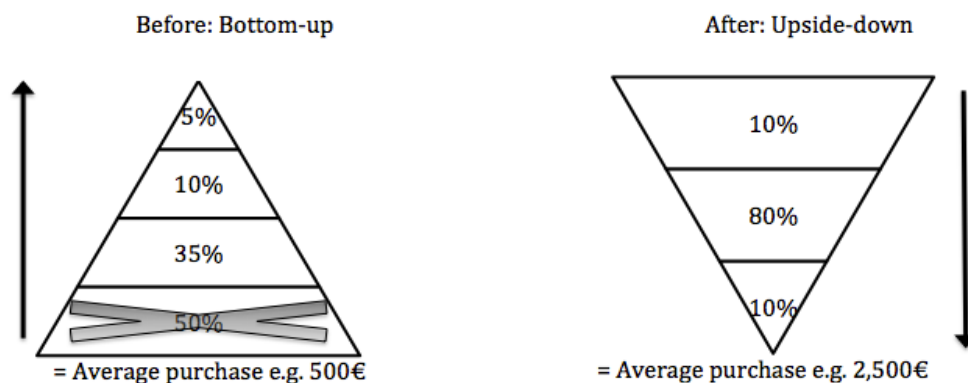
In today's competitive business environment growth can be difficult. When a company wants to increase their market share, usually the easiest way is to reduce prices, which increases product sales. Price war is born when companies continuously lower prices to undercut the competition. Eventually, a price point, that only one company can afford, is reached. Some companies will even sell at a loss in an attempt to eliminate the competition completely. Only one can win the price war, the rest can ruin their margins. To beat the competitors, company should not sell the price but instead the benefits. (Rubanovitsch 2012, 106).

Upside down selling is a sales technique, where the sales person starts the selling process by offering the highest quality products first. The seller does not start the selling process from the lower-priced products nor by explaining the current campaigns and offers. By doing so, the probability of the customer buying more expen-

sive product becomes greater than when starting from lower-priced products. Each customer should always be provided with the highest quality products first as it is easier to move on to cheaper products than to climb from cheaper to more expensive ones. (Rubanovitsch & Aalto 2012, 99).

Selling should never be forcing. For this reason, it is important to first define the customer wants, and then to choose the products to offer. By using upside down selling on the sales process, it can have an effect in the average purchase. According to Rubanovitsch & Aalto, the salesperson was able to increase the average purchase from 500 euros to 2 500 euros just by starting to sell upside down. The situation is described in the figure 3.

Figure 3. How does the upside-down selling work. (Rubanovitsch & Aalto 2012, 101).



Just-In-Time delivery can be used in order to influence the customer's purchasing decision, especially at lunchtime, when meal break of the customer is only about 30 minutes, and customers are in a hurry. During the rush hours, products with high gross profit can be prepared beforehand, so that these products are immediately ready to sale for the customer entering the restaurant. The customer may end up buying the product only because it can be given to her immediately.

3.4.3. Using names and descriptions

One technique for improving sales is to use names and descriptions when selling the product. This means, that customer should not be asked, whether he would like to have a dessert. Instead he should be asked, whether he would like to have a self-made chocolaty brownie with vanilla ice cream. It is easier to say no to “dessert”, as the customer may not know what the company has to offer. When describing the product, the customer answers, whether he really wants to have the brownie or not. (Mäkelä 2013)

3.4.4. Selling more

Selling more is the final part of the selling process in a quick service restaurant. During the different steps of the sales process, the customer is given information about the products and based on that the customer decides which product to take. After selecting a product there is still a chance to do more sales. For example, if the customer has entered a beauty store with an intention to buy a lipstick, the sales person starts defining the customer wants, selling upside down, and is using names and descriptions. But the selling process does not end when the customer has found the perfect lipstick, there is still a possibility to sell more: the customer should be asked about the brushes and make up removal as well. (Rubanovitsch & Aalto 2012, 152-153).

Many employees have negative feelings towards selling more. They feel as they are forcing the customer to buy more. Selling more should however be seen as a part of a good customer service. If the customer goes back home and starts using the new product, and finds out that something is missing, the buying experience can become negative. (Rubanovitsch & Aalto 2012, 152-153).

Selling more can also have an influence in the gross profit. As an example, customer orders a menu that has a gross margin of 79% and gross profit of 6,17€. The salesperson manages to sell more for the price of 2 euros. As listed below, this has an effect in the gross margin.

New gross profit euros: 8.10€	+1.93€
New gross margin: 81%	+2%

4. CASE STUDY

This thesis was taken into practice during September 2014 – March 2015. It comprises of three stages, each lasting for one to three months. When starting to implement this thesis into practice, the case company had only once exceeded the gross margin of the previous year. At the same time the case company had faced a loss in sales. Many changes had occurred during the year passed, this is why the comparison of the effects is done in percentages. The results of this thesis are not black and white as many changes can have an influence in the profitability.

4.1. Improving the visibility of high gross margin products

Improving the visibility of high gross margin products is the first step towards improving the case company's sales and gross profit. The case company has places for four menus to be shown to customers. These menus were updated in the end of September 2014. The products were chosen based on the gross profit euros, not gross margin percentages.

The starting point is described in the figure 4 below, which shows the menus, gross profits and gross margins before the change. New menus were chosen based on the gross profit euros listed below in figure 5. When choosing menus, incorrect portion sizes should also be kept in mind. As an example: Portion A has 20 grams of bacon in it and portion B has two onion rings. Otherwise they are nearly similar. Portion A has a risk of becoming more expensive, as bacon can be overdosed whereas onion rings are added by the piece.

Figure 4. Menus and the gross profit euros before the September 2014 ¹

Menu	Gross Profit Euros	Gross Margin
Menu A	2,79€	XX%
Menu B	1,52€	XX%
Menu C	2,00€	XX%
Menu D	3,03€	XX%
Average	2,34€	XX%

Figure 5: New menus and the gross margin euros of the products chosen in September 2014

Menu	Gross Profit Euros	Gross Margin
Menu A	6,17€	YY%
Menu B	7,40€	YY%
Menu C	6,18€	YY%
Menu D	6,23€	YY%
Average	6,50€	YY,Y%

As can be seen from these two figures, the gross profits in this area of business are low, varying from 2 to 8 euros. By rethinking the visibility, the gross profit increased in the new menus by 4,16€ and gross margin by 11,5%. The employees were also taught that these four menus have high gross profit and are good products to be recommended if the customer does not have an idea on what to purchase.

By changing the menus can be seen, whether visibility affects the purchase decision of a customer. If more customers are to choose these products with high visibility,

¹ Actual numbers are provided to supervisors, not published for confidentiality reasons

should it have an effect on the gross margin but also in the average purchase, as these four new menus are more expensive to buy as well.

4.2. Teaching proactive sales techniques

The second step in improving the sales and gross margin of the case company was by teaching the employees new and pro-active sales techniques. This was taken into practice by holding a meeting, where sales techniques were discussed and taught to the staff. This meeting had two aspects: improving the sales techniques and teaching the profitability of the sales process. New sales techniques should increase the average purchase, as the employees are taught new skills on how to influence the customer's decision to buy and how to sell more. The profitability of the sales process should increase the gross margin.

Teaching proactive sales techniques was held in two parts: the first in December 2014 for the new employees that had started working in the case company during the year 2014 and were not familiar with sales management. The second was held in January 2015 for those having worked in the company for several years and were familiar with the sales management and had some sales skills already.

An evaluation form was created for the case company based on the actual sales process of the customer. It was presented and went through step by step with the employees. This evaluation form has 8 steps of the sales process. At the same time, these 8 steps became the requirements towards everyone's sales work. The employee is expected to go through all these 8 steps when serving a customer. Sales managers (restaurant managers and 3 restaurant supervisors) were then observing the sales person while serving customers and based on the observation gave a grade on a scale of 1-4. These grades are based on the knowledge management model presented earlier in this thesis. Next, the sales person filled a self-evaluation and after this, feedback was given based on the observation. The aim of these evaluations is to share the sales knowledge and give the employee tips on how to improve the sales skills.

Besides teaching sales techniques, sales process and its profitability were also gone through. The employees were told basic facts about gross profit and how it can be affected by following the recipe cards carefully. Practical examples were given, such as what difference does it make if food raw material is each time used 20 grams more than what it should and also what difference does it make to be careful with the non-food material.

12 employees attended the meeting for one hour. According to the company's Income Statement, one hour costs approximately 21,50€ (employer's contributions included). The costs for these meetings were 258 euros. Teaching proactive sales techniques should have an effect on increasing the revenue and the average purchase as customers are buying more. Being more careful in the sales process should increase the gross margin. Therefore teaching sales techniques should have a direct effect in the case company's net profit.

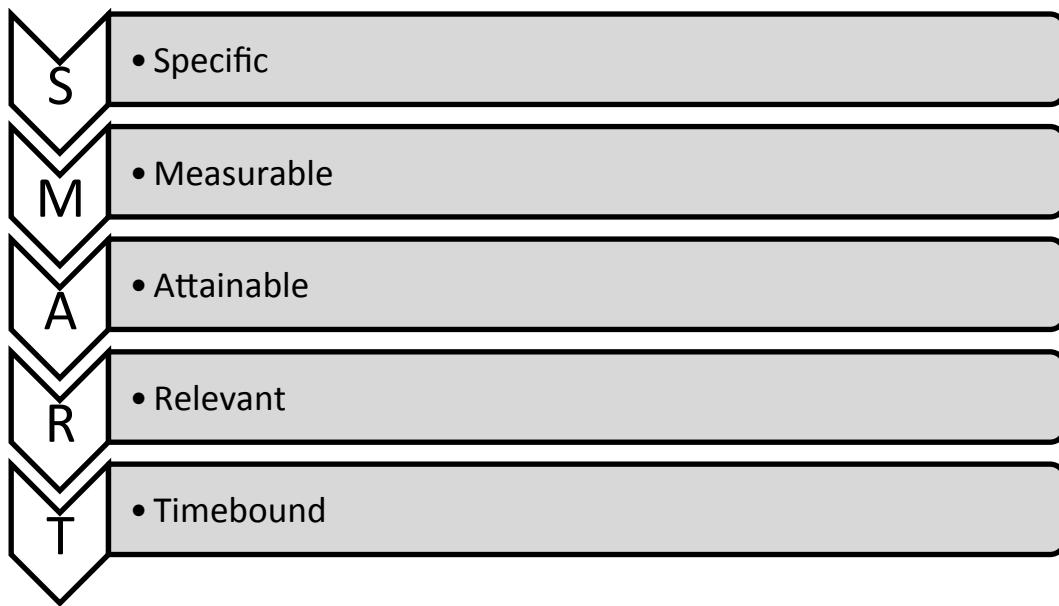
4.3. Setting Gross Margin goals

The final stage towards improving the gross margin of the case company is to carefully measure it and set SMART goals for costs that affect the gross margin.

Gross Margin can be improved by decreasing the costs of goods sold. The two costs that contribute most to the gross profit in the case company are food waste and misuse of the food raw material (i.e. incorrect portion sizes). In order to having achieved the gross margin budgeted for the year 2014, only 1 717€ of gross profit would have needed, which is 143€ a month as an average. To get a sense of this number, food loss and inventory management reports show that the food loss in January 2015 alone was 987€. In addition to this, 149€ was lost because of incorrect portion sizes. This makes in total 1 136€ in one month (Myynnin aikajakauma 150131). This is why it is important to set goals for the employees in regards of food loss and correct portion sizes.

When setting goals, SMART goal setting theory can be used. SMART is an acronym shown in figure 6 of the words:

Figure 6. SMART Goals



A good goal is therefore clear and simple, reachable, and it will be monitored on a regular basis. An effective goal is also measurable; otherwise it will be difficult to tell when the goal set has been achieved. The more detailed the goal is the more likely the person will be successful. A good goal is not therefore to improve gross profit, but how much to improve it and by when. (Carlsson & Forssell 2012, 145).

Manager's responsibility is to set clear goals for the team to achieve. It is not clear enough just to ask the sales persons to improve the gross margins. Unless she can create and communicate specific expectations for margin growth, it will be difficult to take the goal into practice as a part of everyday life. Attainable goals mean, that one should not expect to go from a gross margin of 62% to 67% in a month. What can be expected though, is to go from 60% to 61% to 62% in three months and from 62% to 64% in the next six months. Then gradually continuing from 64% to 67% over the next two years. So the goal would be a 7% margin improvement in 33 months, which can be achieved. (Darlington 2004)

The main goal for the case company was to increase the gross margin by 1% in March 2015 compared to the month of February 2015. The starting point was to cal-

culate, how much this 1% would be. Gross margin goals can be calculated from the budgeted revenue. If we imagine the revenue to be XX XXX€² in March 2015 and the goal would be to improve the gross margin from YY% to YY%, gross profit euros needed would be:

$$XX\ XXX\text{€} \times 0.YY = 9\ 240\text{€}$$

$$XX\ XXX\text{€} \times 0.YY = 9\ 380\text{€}$$

As can be seen from the example, the difference between YY% and YY% is only 140€ a month. As March 2015 has 31 days, dividing 140€ with the days makes:

$$140\text{€} / 31\ \text{days} = 4,52\text{€/day.}$$

Figure 7 indicates some of the costs in February 2015. If there were not to have any of these costs, the gross margin would have increased immediately by 2,3%. However, as is sited earlier in this thesis, food waste is somewhat a must in a restaurant, as otherwise sales would be lost because of not having anything to sell to customers.

Figure 7. Waste costs of the case company in February 2015 (Income Statement of the concept 150228)

Type	Costs in February 2015	Cost per day (average)
Unsold products	172,98€	6,18€
Pre-consumer waste	113,46€	4,05€
Incorrect portion sizes	46,55€	1,66€
In total	332,99€	11,89€

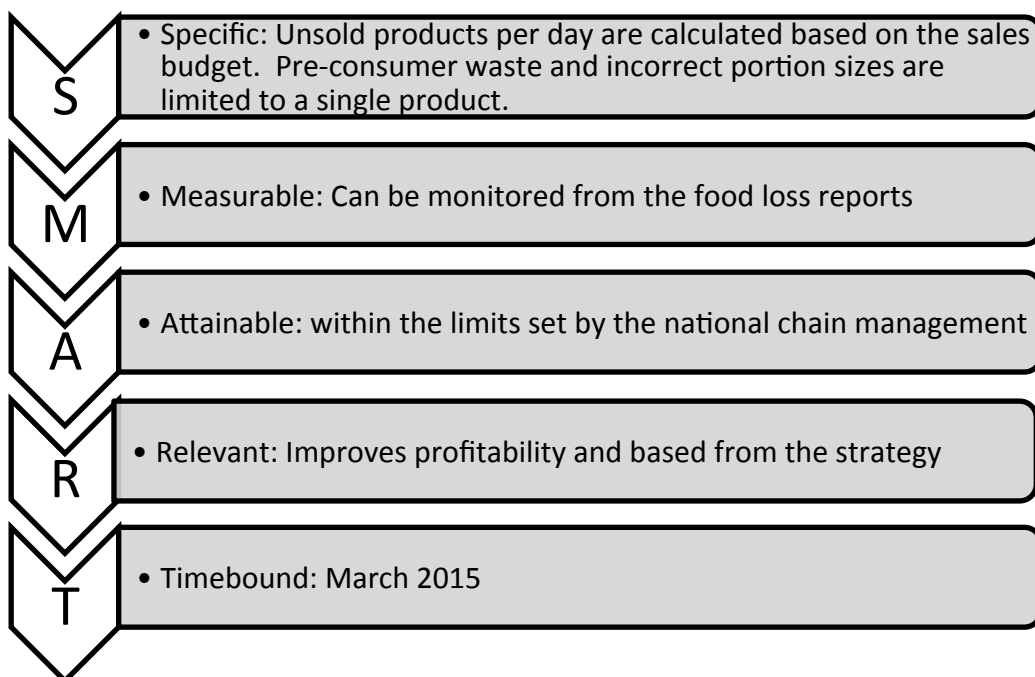
Improving the gross profit 4,52 euros a day (140 euros a month) can be done to setting daily goals for unsold products, pre-consumer waste and incorrect portion sizes. The goal for March 2015 is to decrease these costs from 11,89€ a day to 7,37€ (as an

² Actual numbers are provided to supervisors, not published for confidentiality reasons

average) per day. The national chain management has set limits for the unsold products, pre-consumer waste and for the incorrect portion sizes and the difference in the inventory caused by it. These goals are used in order to calculate, how many unsold products, how much pre-consumer waste and how many incorrect portions can be made in the case company.

SMART goals are defined based on the day's sales budget. SMART goals for unsold products were agreed to concern all products sold in the case company per day. Pre-consumer waste and incorrect portion sizes were limited to a single product only, to make it more simple and clear. This product was monitored daily in March 2015, so the quantities in the inventory were calculated every day. In February 2015, 24,5 kg of this food raw material was lost because of incorrect portion sizes and 35,7 kg were put into trash before ever reaching the customer. For March 2015, the goal was to decrease these costs by half.

Figure 8. SMART goals of the case company for March 2015



5. ANALYZING THE RESULTS

Results are analysed in order to get an understanding of the effects of the changes made in the case company. The results are illustrated by using real data of the company such as the actual income statements and other key performance indicators of the case company. The effects are mainly presented in percentages and are compared to previous year.

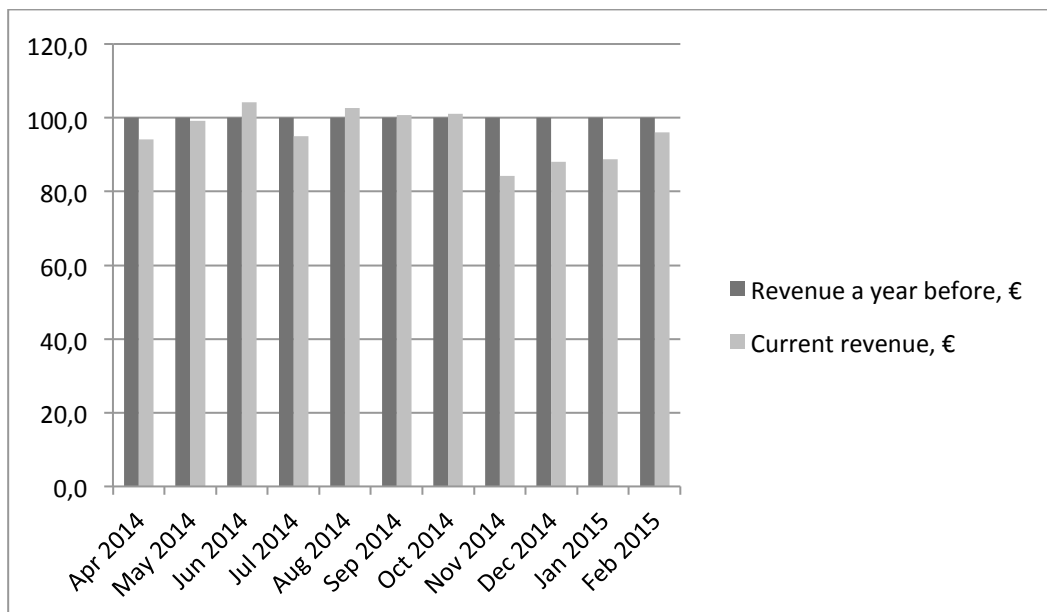
Results are analysed from data, which includes income statements (revenue, gross margin, net profit) and cash register reports (average purchase and food loss reports), which are analysed and compared to a year before. The comparison is made on a monthly basis.

Because of confidentiality reasons, most euros are left out and using indexes mainly does the comparison. Index is a number used to indicate change at some specific time. This number is usually assigned as a value of 100, and all other data is expressed in relation to this. For example, the price of a product A might stand at 95, which indicates a fall of 5% in the prices, or 105, which indicates an increase of 5%.

5.1. Revenue and gross profit euros

Analysing the revenue gives an understanding of the current situation of the company. Revenue a year before is described with an index of 100, and the current revenue is compared to this index. If the current revenue is less than a hundred, less revenue was received. If higher from 100, the revenue of a year before was exceeded. As can be seen from the Figure 9, revenue is decreasing month by month compared to the revenue a year before which gives an understanding of losing sales. As an example in November 2015, the index being 84,3 compared to a year before, which means that approximately 15,7% of revenue was received less. In a situation of losing sales, it is important to proportionate other costs to the loss of revenue.

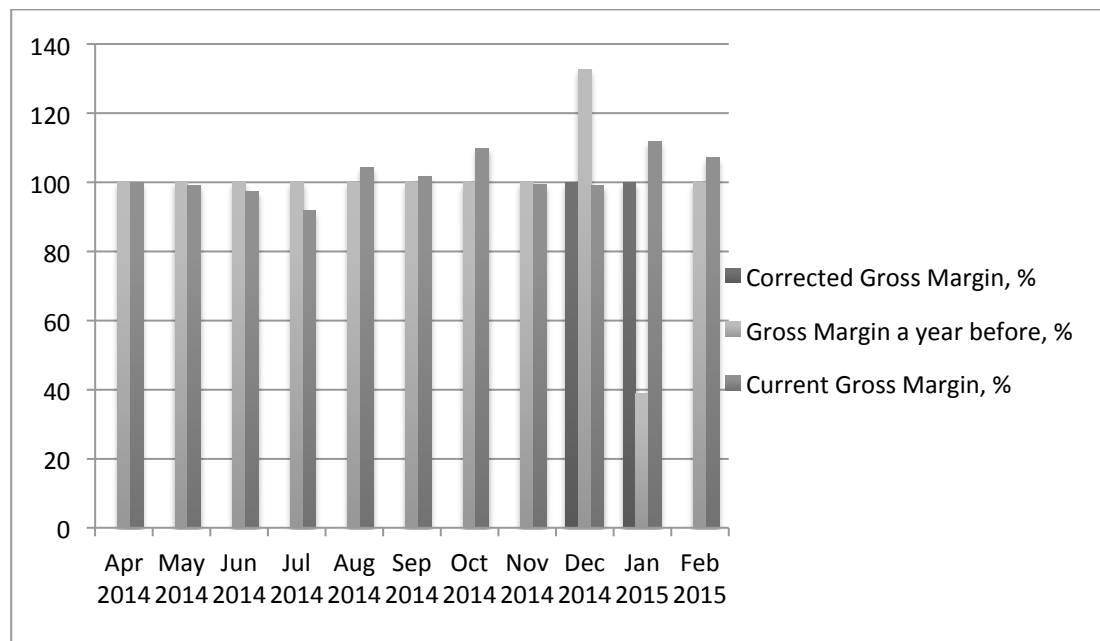
Figure 9. Comparing the difference of actual revenue to a year before (Income Statements 2013-2015)



First stage, improving the visibility of product with high gross margin euros was taken into practice starting from the September 2014.

Figure 10 shows the changes in the gross margin compared to a year before. The darker line indicates the gross margin a year before, and the lighter line the actual gross margin of the current year. As can be seen from the results of figure 10, gross margin has mostly been less than a year before. This thesis was taken into practice starting from last year's September. Since then, the gross margin has almost invariably been higher than a year earlier.

Figure 10. Comparing the current gross margin to the year before (Income Statements 2014)



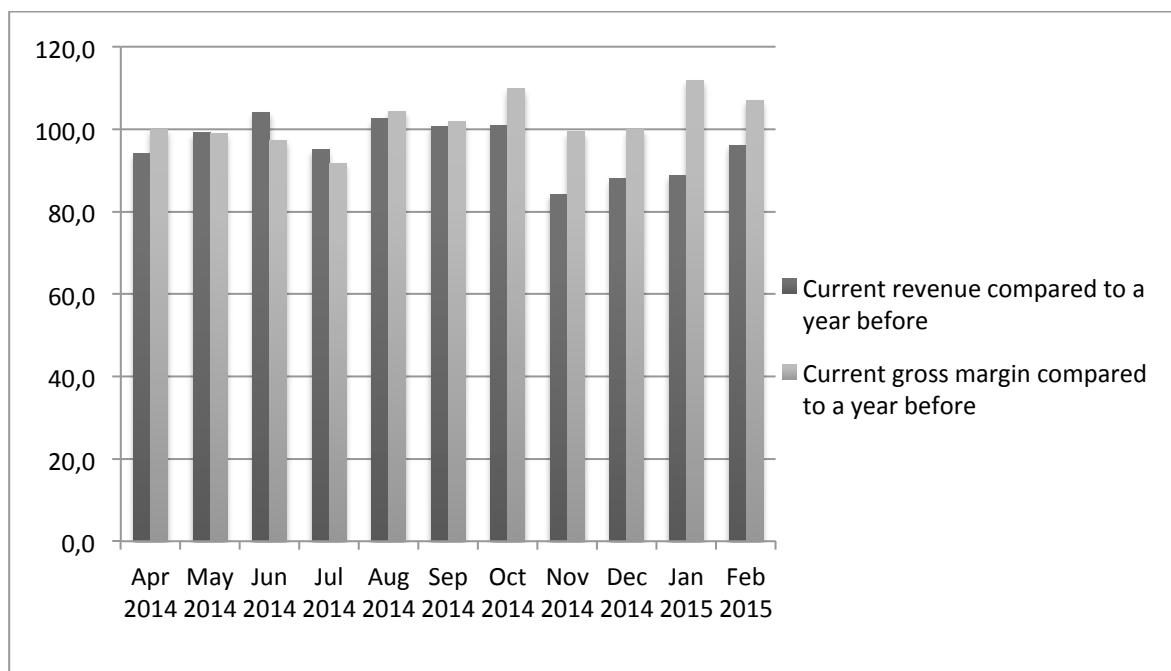
As can be seen from the figure 10, radical changes in the gross margin have occurred in December 2013 and January 2014. This change can be analysed from the long income statement. This is explained by a mistake made in December 2014, which also had an effect in next month's gross margin. It can be seen from the income statement that there has been changes in the inventory: -5 000€ in December 2013 and +3 700€ in January 2014. Taken this changes into account, the estimated gross margin would have been approximately XX,X%³ in December 2013 and XX,X% in January 2014.

A growing gross profit illustrates better use of resources, more sales or lower production costs. Revenue and gross profit are analysed side by side in figure 11. This figure indicates the changes of current revenue to a year before (September 2014 is compared to September 2013). The same comparison is also done for the gross margin. Despite the fact that revenue has been lost from a year before, the case company has been able to improve its gross margin. This is a sign of the case company having

³ Actual numbers are provided to supervisors, not published for confidentiality reasons

been able to work on the processes required to make and sell a product, thereby making production at its best cost and also developing processes that are followed every time a product is made and sold.

Figure 11. Comparing the changes in revenue and gross margin to a year before



5.2. Average purchase

Average purchase amount is the revenue that company gets per purchase order. Calculating the average purchase amount is relatively easy; it can be calculated using the following formula:

$$\frac{\text{Total revenue in a given period}}{\text{Number of orders placed in the period}}$$

In order to analyse the results, the average purchase was also looked into. The changes towards improving the gross profit started in the end of September 2014. As can be seen from the Figure 12, changing the menus also had an effect in the average purchase. The results are shown in the Figure 12 below. The average purchase is

compared to the average purchase of previous year. The black arrow indicates the stage 1, improving the visibility of high gross margin products. The grey arrow, on the other hand, indicates the stage two, improving the proactive sales techniques. As can be seen from the results, the biggest growth in the average purchase is obtained after the meetings, where sales techniques were taught (December 2014 and January 2015).

Figure 12. Comparing the average purchase (Sales reports 2014-2015)

Month / year	Current average purchase, €	Average purchase a year before, €	Difference, €	Difference, %
Apr 2014	8.98€	8.90€	+0.08€	+1%
May 2014	8.81€	8.59€	+0.22€	+3%
Jun 2014	9.53€	9.01€	+0.52€	+6%
Jul 2014	9.73€	9.60€	+0.13€	+1%
Aug 2014	9.80€	7.98€	+1.82€	+23%
Sep 2014	9.37€	8.66€	+0.71€	+8%
Oct 2014	9.36€	8.86€	+0.50€	+6%
Nov 2014	9.16€	8.53€	+0.63€	+7%
Dec 2014	10.19€	9.91€	+0.28€	+3%
Jan 2015	9.76€	8.15€	+1.61€	+20%
Feb 2015	9.67€	8.72€	+0.95€	+11%

Average purchase can be caused by many things. Firstly, the average purchase is dependant of the pricing. If prices go up, in most cases the average purchase grows as well. Secondly, campaigns and discounts can have an effect in the average purchase. As can be seen from the Figure 12, the average purchase has grown in August 2014 (+23%) and in January 2015 (+20%). This is mostly explained by the campaign product, which in both months was more expensive than campaigns usual, but also very popular ones. However, the biggest rise in the average purchase can be seen in January 2015, which was when the proactive sales techniques were taught and taken into practice.

The effect of pricing can be estimated and ruled out by comparing the average purchase of other comparable restaurants in the area of Satakunta. As can be seen from the Figure 13, the average purchase in four other comparable locations in Satakunta grew from 5% to 8% whereas the growth in the case company was from 11% to 20%. (Case company's field manager 2015).

Figure 13. The average purchase in comparable restaurants in Satakunta

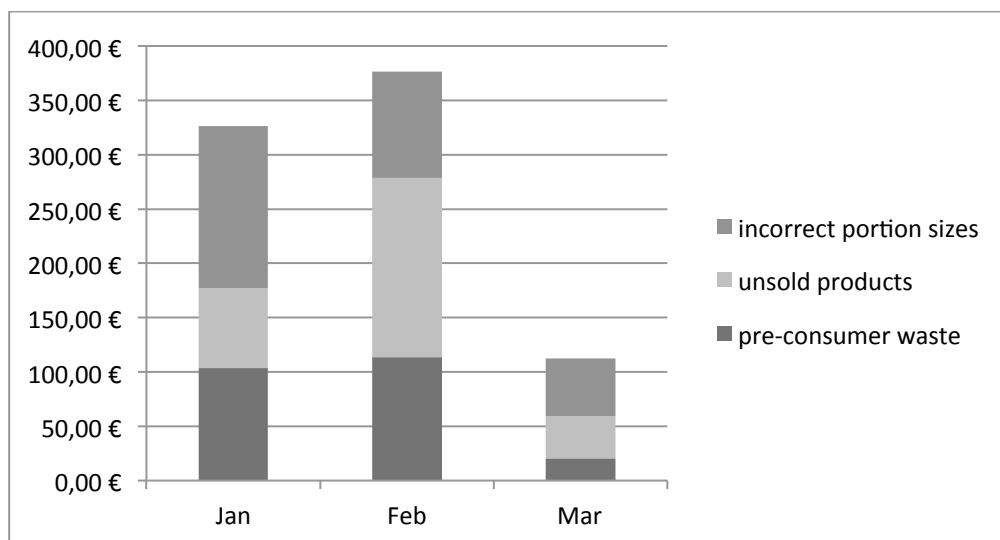
Month / year	Current average purchase, €	Average purchase a year before, €	Difference, %	Growth in the case company, %
Jan 2015	9.20€	8.51€	+8%	+20%
Feb 2015	9.01€	8.61€	+5%	+11%

In January 2015 the average purchase grew +12% and in February 2015 +6% more than as an average in the area of Satakunta. If it is assumed that this growth is because of teaching new sales skills and improving the visibility of high gross margin products, it would have brought about 2 500€ more.

5.3. Analyses of food waste goals

Gross Margin goals were introduced to the case company in March 2015. SMART goal setting theory was used for reducing the costs of goods sold. Figure 14 indicates the food waste and incorrect portion sizes from January 2014 to March 2015. SMART goals were not set until the March 2015, so the months of January and February 2015 are the figures the new results are compared to. From January 2015 till March 2015 the revenue stayed almost the same and there is only a 700 euros difference, which also makes these results comparable to each other. The main goal for March 2015 was to improve the gross margin by 1% compared to a month before, which is done by decreasing February's costs by half.

Figure 14. The extra costs of goods sold in the case company: incorrect portion sizes, unsold products and pre-consumer waste (Myynnin aikajakaumat 150131, 150228 & 150331)



Pre-consumer waste and incorrect portion sizes were limited to a single product, to make it more easy and clear. This product was monitored daily in March 2015, so the quantities in the inventory were calculated every day. Figure 15 indicates the changes in the inventory for this one product only.

Figure 15. Varastopäiväkirja of Product X.

	Incorrect portion sizes	Pre-consumer waste	Total
Feb 2015	24,5 kg	35,7 kg	60,2 kg
Mar 2015	3,6 kg	19 kg	22,6 kg
Difference	-20,9 kg	-16,7 kg	-37,6 kg

As can be seen from figure 15, incorrect portion sizes dramatically decreased. The new results in March 2015 more than 85% less than in February 2015. Pre-consumer waste is 47% less, and a bit higher from the goal set. However, as a total, the case company was able to decrease the costs of one product by 62% compared to February.

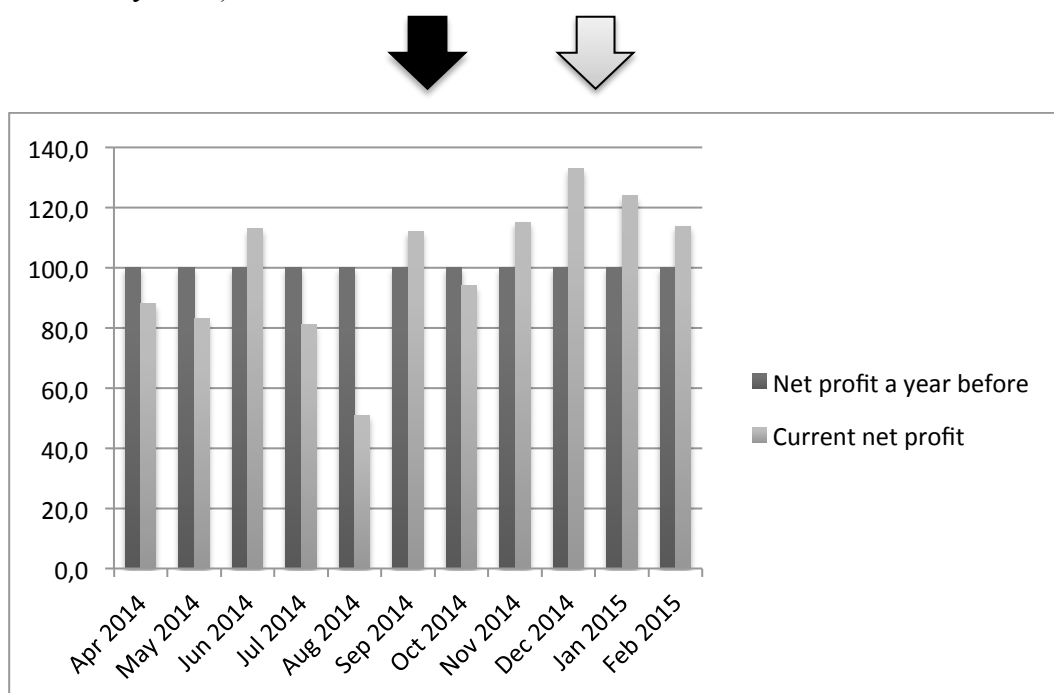
Unsold products were put into trash for worth of 172 euros in February 2015. In March, the same figure was only 46,56 euros. The new results are therefor 73% less. (Hävikkiseuranta 03/2015). If the extra costs for waste and incorrect portion sizes would have been on the same level they were in February 2015, the Gross Margin would have been XXX€ less, which would have had an effect of 1,18% in the final Gross Margin of the month.

5.4. Net profit

Analysing the net profit of the case company is, in this case, only indicative as the case company has faced a lot of changes during the year 2014. Lot of operations have been intensified.

Improving the processes in a restaurant, gross margin as one of them, the end results should always be seen in the net profit. Net profit compared to a year before (Figure 16) shows, that almost each month starting from last years April, less profit was made. The change happened in September 2014, and after which, only once has it been less than a year before,

Figure 16: Comparing the net profit to a year before (Income Statements March 2014 – February 2015)



In figure 16, the black arrow indicates the changes in the visibility of high gross profit products. The grey arrow indicated teaching proactive selling techniques.

From September 2014 to February 2014, the net profit improved as an average by 15,3% compared to a year before

6. CONCLUSION

The aim for this thesis was to study the gross profit in a quick service restaurant and to help implementing the new strategy. It looks into finding ways for developing gross margin within the case company and examine what kind of results can be gained.

The method chosen was a mix of quantitative and participant observation. Robert Yin's case study method (2004) allows the researcher to examine a case within its real-life context. The case study method works at its best when the research addresses either a descriptive question of what happened, or an explanatory question how or why did something happen. Unlike most other methods, when doing case studies you may need to do data collection and data analysis together. (Yin 2004, 1-3).

How have the gross margin been able to develop in the case company? The answer is complex and no simple answer can be given. Based on the results of this thesis, there are several ways for improving the gross profit in a quick service restaurant. It all comes back to management. A good sales manager gets things done through others. Tools can be given but if a manager can't create and communicate specific expectations for margin growth, it will be difficult to take the goal into practice as a part of everyday life. It should be kept in mind that the effects are often the sum of many factors. Improving gross margin is done together with the employees, which is why everyone in the sales team needs to be involved.

Why should the gross margin be improved? The business environment is constantly changing. If a company fails to execute the strategy, it will become difficult to gain competitive advantage and to achieve superior level performance in relation to the competition. All in all, the thing that matters the most is the profit. During the six months this thesis was taken into practice, the net profit income of the company was improved by +15,3% compared to a year before. Based on the income statements of the case company, the gross margin also increased as an average by 3% compared to a year before. The improvement in the profitability of the company is not solely because of improving the gross profit.

Real data from the case company has been used in order to gain valid effects of the development ideas. However, as there has been a mistake made in December 2013, which also had an effect in the gross margin of January 2014, the final results are only estimations. This ultimately also has an effect in the final figure, which estimated the gross margin having increased as an average by 3%.

Studying all the three development programs separately could develop this research furthermore. From the point of view of analysing the effects, it would be better to have separate stages. Their combination worked well in the case company, as it was clear that money was lost because of incorrect portion sizes, food loss and advertising cheap products. It was also difficult to gain extra sales without developing employees' sales skills. Also, two months is a short time to take a project into practise and since three different programs were combined, it is difficult to point out, which aspects worked particularly well and which did not. Further research would include researches about customer purchasing behaviour, and how the salesperson can have an impact on this behaviour.

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