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Implementing Strategy in Tough Economic Times: *A Case Analysis of Wrap Shack Sandwiches*

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The focus of the case decision is on making recommendations regarding the functional strategies of Wrap Shack Sandwiches, a fast casual restaurant concept. Emily and Matt Stevens, the restaurant owners, were concerned about implementing growth strategies for their business as well as keeping their employees motivated in their absence. Neither owner currently worked full-time in the business but both noticed a continuing decrease in revenues. A bad economy was also partly to blame. The owners needed to find a way to encourage or motivate their employees to provide excellent customer service and maintain high quality standards, both sources of differentiation for the business. Due to the current economy, there is very little money available to implement costly strategies. The case is appropriate for both undergraduate and graduate level courses in Business Strategy, Entrepreneurship or Human Resource Strategy. The situation described in the case is based on actual events that occurred. All names of the parties involved (including the restaurant name) have been altered to protect their identity.

When Emily Stevens was the in-store manager of her sandwich store, she was able to personally oversee the behavior of her employees. She was a clear example of effective "management (and motivation) by walking around". Ten months ago, she left the business in the hands of a capable manager who had been with the company for around three years to pursue other professional opportunities. Another owner, Emily's brother, Matt Stevens, lived in the local area and regularly checked in on the business, but over the past ten months, monthly sales had continued to decrease. At this rate, the store would not be able to stay in business for much longer. Emily and Matt Stevens faced a major challenge of how to implement functional strategies that would allow the business to increase the motivation of their employees to provide both excellent customer service and maintain the quality standards for the food, which would hopefully lead to increased sales. This challenge was made more difficult by the absence of both owners from the day-to-day operations and the fact that these same employees were also making sacrifices to keep costs low enough to keep the business out of the red and marginally profitable. Additionally, Emily and Matt wanted to work with current management and staff to find ways to sustain the business during the current turbulent economic times.

FRANCHISE BACKGROUND

HISTORY

The first Wrap Shack Sandwiches was opened in 1996 by Jenny Fox. Franchising of the concept began the following year. By 2010, the franchise system consisted of more than 125 independently owned locations in 24 states. Wrap Shack Sandwiches offered over 50 different sandwiches rolled in tortillas (no bread is offered). Both hot and cold sandwich options were on the menu. Other items offered include soup, chips, cookies, and soft drinks. Wrap Shack Sandwiches differentiated itself through high quality ingredients and the unique rolled sandwich concept.

MISSION

The mission of the Wrap Shack franchise focused on providing a healthy, high quality alternative to the normal fast casual restaurant fare. Specifically, the franchise-level mission was to “provide the world’s healthiest sandwiches, soups, and salads to our discriminating customers. We combine flavors and textures from multiple ingredients in portions that complement the whole – and make for a very unique sandwich.”

BUSINESS-LEVEL STRATEGY

As suggested by the franchise mission, a business-level strategy of differentiation was pursued. This differentiation strategy was based on using fresh, high quality, healthy ingredients that would be combined to create a “unique sandwich”. The fact that the sandwiches were also rolled in tortillas instead of being served on bread was another source of differentiation. While the franchise had a strong mission and vision of the type of sandwich that would be served by their franchisees, each individual franchise location was given a great deal of latitude in implementing the high quality strategy as well as pursuing other sources of differentiation. This freedom, given to individual franchisors to make decisions and implement strategy, also differentiated the franchise from many other procedure and rule dominated franchises in the industry.

INDUSTRY BACKGROUND

The restaurant industry has four distinct segments: quick service, fast casual, casual dining and fine dining. The quick service segment is made up of restaurants that usually provide counter service only and low prices. Examples of restaurants in the quick service segment are McDonald’s and Taco Bell. The fast casual segment is comprised of restaurants that also do not offer table service but tend to offer higher quality food and charge higher prices. Examples of some of the largest national chains in this segment are Chipotle’s Mexican Grill, Panera Bread and Five Guys Burgers & Fries. The casual dining segment restaurants provide table service and usually serve complete meals. Examples of national restaurants in this segment are Chili’s, Red Lobster and Olive Garden. Finally, fine dining are higher end restaurants offering table service and higher quality food, service and atmosphere.

Wrap Shack Sandwiches is part of the fast casual segment in the Eating Places industry. This industry earned revenues of over $500 billion in 2008 with the average restaurant earning revenues of about $671,000 annually. This industry is extremely competitive with about 30% of the industry being made up of large chains and 70% of the businesses being sole proprietorships or partnerships. In fact, most restaurants are very small businesses with 91% of all restaurants employing less than 50 employees in 2010 (National Restaurant Association, 2010). The fragmentation of the industry led to a high level of competition where any advantage was sought after whether through operating efficiencies, high repeat business or low turnover.

While competition for customers was high between restaurants, so was the competition for employees. High turnover in this industry was a chronic problem that could increase expenses for any business not able to retain top performers. Research from the National Restaurant Association indicated that the most talented workers had their pick of businesses to choose from including other eating establishments as well as other service businesses. In order to attract and retain top workers, some chains and single restaurants had begun offering more training, more benefits and higher wages.

The fast casual segment of the restaurant industry grew by 5.7% in 2008. However, the annual growth rate was expected to decelerate to just over 4% for the years 2008 – 2013. This lower growth rate would indicate even greater competition for customers and quality employees (Encyclopedia of

American Industries, 2009). Florida was especially hard hit during the recession and housing crisis with same store sales decreasing for 17 months in a row (Neuman, 2010). In fact, the industry as a whole had been suffering decreases in sales of 2.9% in 2009 and 1.2% in 2008 after adjustment for inflation.

In general, the conditions in the eating places industries are competitive during good times. There are many small, individually owned operations competing not only for customers but also for quality employees. To make matters worse, the economic environment from 2007 on has led to even more pressure on small business owners to decrease costs while trying to find a way to maintain or, hopefully, increase sales.

WRAP SHACK'S FLORIDA LOCATION

HISTORY

Emily Stevens first visited a Wrap Shack Sandwiches in Dallas, Texas. There was a successful location down the street from where she worked. After eating at the Dallas location several times, she began to believe that this type of franchise could be extremely successful in the Florida college town she had just moved from. Based on her belief that the Wrap Shack Sandwiches fast casual restaurant concept could be successful in Florida, she contacted her brother, Matt. Matt was also an alumni of the same college and familiar with the Florida city where they wanted to open the business. He had earned a bachelor's degree in religion and was working in social services in another city. He was extremely open to the idea of moving back to the college town and being an owner/operator of the business. Based on Matt's interest and Emily's financial resources, they contacted the franchise owners about purchasing the franchise rights for this city.

Their first store opened in March 2001 in a location near the university. Matt was a full-time, on-site owner and operator. He had experience from high school in fast food and quickly learned the ins and outs of operating a growing, successful business. Given his mixed experiences working in fast food, he was committed to creating a culture and environment where employees would be able to have fun at work and be appreciated for their efforts. The store was very successful from the beginning grossing just under $400,000 for the 9 months they were open in 2001 and close to $600,000 in 2002. The store's monthly revenues ranked them in the top 10 of franchises nationwide.

OPEN SECOND LOCATION AND CLOSING FIRST

Based on the success of the first store, Emily moved back to the area in 2003. The plan was to open a second store in a different part of the city, further from the university. The second store opened in October 2005. Emily was the manager of this location and responsible for the day-to-day operations. Emily also understood the importance of creating a culture where employees would be motivated to do their best and help differentiate their restaurant from similar restaurants in the area. This was especially important in an industry such as the restaurant industry where turnover can be high and detrimental to a company's bottom line (Lynott, 2008).

By the end of 2007, Matt made the decision to leave the business to pursue other interests. Similar to many other business owners, the constant worrying about the performance of the business and employees had led him to look for a different career. In December 2007, the original location closed, and Emily and Matt were left with the second location located in a more suburban area. When Matt decided to step down from being a full-time manager (he was still an owner of the business venture), it was decided it would be too hard to maintain two locations with only one owner available to work full-time.

"It's hard enough keeping one store running smoothly. We couldn't imagine how much time it would take to have two stores run by one owner. Neither one of us thought that would be realistic," said Emily about the decision to close the first store.

CONTINUING OPERATIONS OF SECOND LOCATION

This second location was also very successful both for the employees and the owners. Emily and Matt had succeeded in creating a culture within their business where employees were motivated to work hard and provide high levels of customer service. By focusing on high quality food as well as excellent customer service, Emily and Matt were able to succeed at differentiating their franchise from local competition. The revenues for the second location grew to just over $400,000 by the end of 2008. Additionally, turnover among key employees had remained at a low level (see Table 1). This low turnover rate was surprising given the estimated 100 – 125% turnover for the industry (Sullivan, 2010).

Table 1. *Key Employees and Tenure*

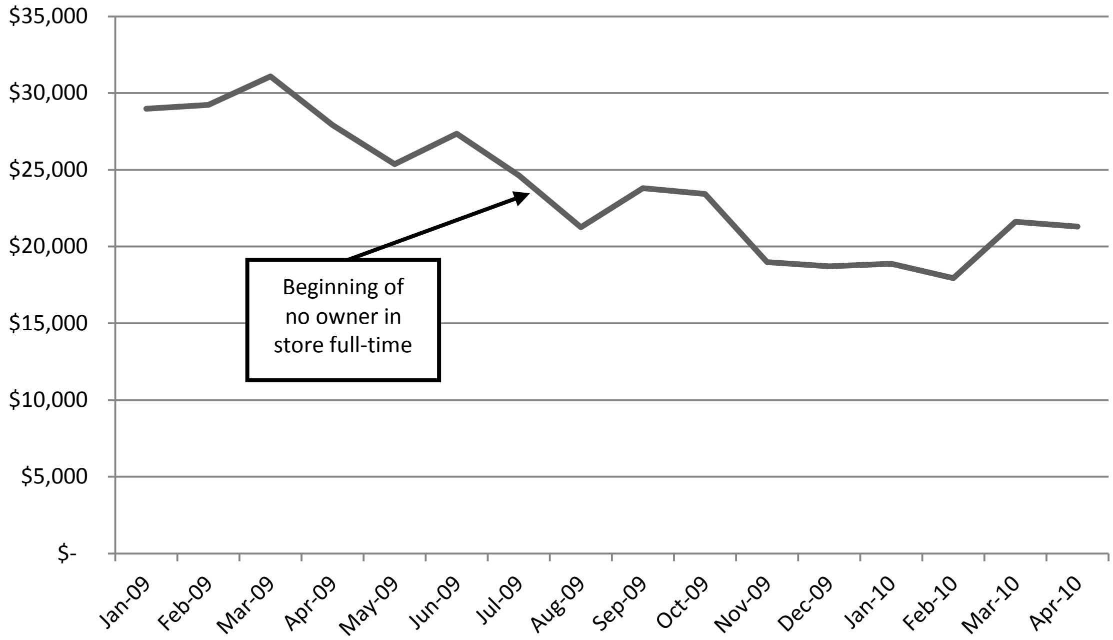
Name	Hire Date	Position in 2009
Chris	August 2006	Manager
Chino	September 2009	Manager
Fred	December 2005	Shift Supervisor
Blake	April 2006	Shift Supervisor
Jake	May 2007	Staff
Todd	March 2008	Staff
Lindsey	October 2009	Staff

However, by the beginning of 2009, sales were starting to slow as the fast casual segment of the restaurant industry began to be affected by the housing crisis and recession that was impacting the local and national economies. The weak economy had a dramatically negative effect on the restaurant industry, causing a record number of closures nationwide. According to NPD (a global research firm), over 4,000 restaurants closed in the one year period from April 2008 to March 2009. That was a 1% increase in failure year-to-year for all restaurants, with independently-owned restaurants seeing a 2% increase in failure rate over the same period (Lockyer, 2009). Economic conditions had a dramatic, negative financial impact on the restaurant industry (Brandau, 2009). Consumer behavior patterns had changed for multiple reasons, including high levels of unemployment, a deep recession, and overall fear of what the future would hold.

Table 2. *Monthly Revenues for 2009 – 2010*

Month	2009	2010	Percent Change
January	$28,980	$18,888	-35%
February	29,235	17,953	-39%
March	31,089	21,607	-31%
April	27,920	21,301	-24%
May	25,382	18,701	-26%
June	27,357		
July	24,651		
August	21,257		
September	23,811		
October	23,428		
November	18,990		
December	18,724		

Figure 1. *Revenue Trend Line 2009 – 2010*



INSIDE THE ORGANIZATION

The operations, structure and culture of the organization began in the first location and many of the procedures and ways of doing things carried to the second, and only remaining, location.

Structure. The structure of the Florida location of the Wrap Shack Sandwiches is a classic, simple structure. Emily and Matt were the top managers and owners. All employees reported to them. Before Emily moved back to Florida and began working in the store, all important operational decisions were made by Matt, and Emily was responsible for financial and budgetary decisions. From the beginning, an assistant manager position existed that reported directly to Emily and Matt. This position was removed once the original assistant manager quit and was replaced with shift supervisor positions. These positions were filled by employees with long tenure who had proven to be reliable. Once a shift supervisor received state mandated certification as a food manager, their title was changed to manager. While the formal structure reflected this additional layer of management, in practice these employees had little authority to hire, fire or formally reward employees. All information and decisions went through Emily and Matt.

Culture. As mentioned previously, Emily and Matt created a culture that stressed a fun environment, recognition for employees and excellent customer service. This culture grew out of Matt's previous, negative work experience in fast food. This "clan culture" is typical of small, independently owned businesses (Cameron & Quinn, 1999). This culture stresses a family environment that recognizes loyalty and commitment with a strong team orientation. The culture was reinforced by Emily and Matt, who made all the hiring decisions, only hiring employees who were outgoing and worked well in teams. The culture was also reinforced by the employees who quickly identified employees who did not fit and approached Emily or Matt about terminating those employees.

"I always warn new employees that they better not goof off because the other employees will definitely tell me about it," says Matt. "Employees don't like when someone tries to cut corners or not do what is expected. They know it creates more work for themselves and hurts the store. They never hesitate to tell us what they think of new employees; whether they think they will fit in or not."

Human Resources. Unlike some franchises, the franchise agreement for Wrap Shack Sandwiches had no required procedures regarding human resources. Emily and Matt were free to hire who they wanted using whatever selection process they chose. Training was 100% on-the-job. The franchise would provide a trainer when a store first opened to train the new owners, but after that, the owners were responsible for all employee training. Emily or Matt would usually train a new employee for their first several shifts depending on how quickly the information was picked up. The store did not have a formal training manual, and there were slight differences between the way Emily and Matt would train. After the first several shifts, shift supervisors would usually provide additional training as the need arose.

Performance evaluation was very informal. Employees were complimented on a job well-done and performance was corrected by Emily or Matt whenever they observed a problem. Finally, compensation started at minimum wage with employees receiving their first raise when they learned the entire menu – usually within the first month. No formal method for awarding raises existed after the first raise. Employees usually were considered for raises once they brought up the issue with Emily or Matt.

Marketing. Again, the franchise agreement mandated very little in the way of marketing. The only marketing plan suggested by the franchise was for the owners to go door-to-door to nearby businesses and hand out menus. Beyond this suggestion, Emily and Matt had a great deal of autonomy and were to free place ads in media of their choice, use coupons or create promotions to drive business. Over the almost 10 years Wrap Shack had been opened, Emily and Matt had tried a variety of marketing promotions including advertising on TV and radio and using frequent customer cards, direct mail coupons and coupon books (which were very popular with students at the university). They did not have any formal way of measuring the success of these marketing attempts or any formal strategy as far as marketing was concerned.

Pricing was loosely dictated by the franchise. Every year they recommended prices, but individual locations could choose to have higher prices. The franchise agreement recommended only changing prices once per year usually around the beginning of the year. Again, the pricing information served more as guidelines than requirements.

Operations. Operations were one area where formal procedures and policies were in place. The franchise provided all owners with detailed procedures for prepping meats, cheeses and vegetables. These procedures included information on what size blades to use in the food processor depending on the vegetable being processed (for instance, tomatoes were sliced thicker than cucumbers), how much one serving of each meat should weigh, and how much each slice of cheese should weigh. The prepping procedures were printed out, laminated and posted on the walls of the kitchen.

The franchise also provided recipes and instructions for every sandwich. The recipes/instructions for each sandwich included the ingredients, the amounts and the order the ingredients should be put on. These instructions were very detailed including information such as the number of tomatoes or pickles, the amount of cheese in slices, and the amount of meat in ounces for each sandwich. Additional information was provided regarding the correct way to "roll up" a sandwich depending on whether it would be served hot or cold. This information included what the diameter of a rolled sandwich should be as well as how wide a hot rolled sandwich should be. As with the information for preparing the ingredients, this information was posted near where the sandwich lines, where the food was prepared for the customers.

Detailed procedures also existed for ordering food inventory. The owners were required to use a franchise-approved food vendor and were only allowed to order certain brands. Substitutes were not allowed for different food items. Emily and Matt were also required to use a local company to receive fresh produce daily. All of these procedures ensured that the operations aspect of the business would reinforce the business strategy of providing healthy food made with high quality ingredients.

These procedures supplied by the franchise supported the overall business strategy of the organization to have high quality, healthy rolled sandwiches. The detailed information ensured high quality in the form of consistent sandwiches while the restrictions and requirements on food inventory ordering ensured high quality in the form of higher quality food items used in every sandwich.

CURRENT PROBLEM SITUATION

The primary problem facing the owners of this Wrap Shack Sandwiches franchise stemmed from several changes in the business that occurred within a short period of time. First, the only current active owner, Emily, followed in the footsteps of the other owner and returned to her previous career. Additionally, she moved out of the city and was now living two hours away. Next, a long-term employee was promoted to a managerial position to replace Emily. This employee had been a shift supervisor but would now take on increased responsibilities regarding daily operations. Third, the recession hitting the Florida economy continued to have an impact on the sales, but it was hard to tell if the decrease in sales was due to the change in management, the poor economy or some combination. As mentioned earlier, all the human resources and marketing procedures and strategies used by the owners for years were extremely informal. With neither Emily nor Matt involved in the day-to-day operations of the store, it could be that some of the informal procedures and strategies were no longer being implemented.

OWNER PURSUES NEW CAREER PATH

During the summer of 2009, Emily, the owner/manager of the remaining location accepted a job two hours away. All the current employees were told about the move and knew someone would have to assume the duties she had been responsible for. Before accepting a full-time position, Emily had been working part-time at the local university. This caused her to not be in the store full-time for 2 or 3 days a week, but she would still stop by every day. Since Emily had been teaching part-time while managing the store, many employees did not think there would be much of a change.

Blake, a long-time employee and shift supervisor (see Table 1 for information about employee positions and tenure), summed up the view of many employees, “Emily is gone for lunch a few times a week now. That is our busiest time. Plus she is rarely around for the evening shifts. She may stop by, but there is always another manager working nights. I’m sure it will be different without her around, but I think we’ll be fine.”

Another shift supervisor said, “Emily is here most mornings and always knows what is going on even on the days she won’t be here for lunch. She does kind of make sure we get everything done we need to get done. We always know she might stop by at some point, and we know what she expects us to be doing or to get done. I mean, she’s the owner so she takes this stuff seriously.”

“Emily also checks up on us regularly to make sure we are doing things right. Like if you make a sandwich wrong or she sees you doing prep work wrong, she’ll show you the way you are supposed to be doing it. Especially since she’s not here every day, she pays even more attention on the days she is here,” said Jake, a long-time employee. He also added, “There are definitely some employees that don’t do what they are supposed to when Emily isn’t here. They don’t greet the customer, or take too long to answer the phone. You know, little things that Emily would never allow and that they wouldn’t even try if she was here.”

APPOINTMENT OF NEW GENERAL MANAGER

A new in-store manager was appointed during the summer of 2009. During this time, Emily had begun to phase herself out of the daily operations of the store. Chris, who was appointed as manager, was a shift supervisor who had been with the store for three years. He had supervisory responsibilities but usually for only one or two employees during the dinner shift.

The duties for a shift supervisor included reconciling the cash register at night, being sure all the closing activities such as cleaning and restocking were completed and supervising any other employees that might be present. Up until the point both owners left the store, the manager title only indicated that a person had passed a state-mandated certification exam required by the local health department for every food service organization. Once Emily and Matt removed themselves from day-to-day operations, the manager's duties were expanded to include all of the shift supervisor's duties plus creating the weekly work schedule, ordering food and supplies, interacting with customers as the person in charge, and responsibility for all human resource activities such as hiring, firing, and training employees. The manager basically was expected to complete all of the day-to-day duties associated with the operation of the restaurant.

The hope of the owners was that having a person promoted from within would help create continuity as the second owner moved on. The reasoning was that since Chris had worked in the store for over three years with the owners and already had some managerial responsibilities, he would understand what the expectations were as far as maintaining customer service and food quality. Emily and Matt hoped that he would be able to make decisions similar to ones they had been making with regard to maintaining high quality food and customer service. Of course, the potential downside is that as a current employee, the other employees would not see him as having the same power as the owners. Many of the employees had worked with Chris over a long period of time, and the promotion might not be seen as an actual increase in his authority.

The reactions of the employees to Emily leaving and Chris's promotion were mixed. Most employees appreciated that a current employee was promoted but many had worked with Chris as an equal for a number of years.

"Chris and I started around the same time," said Blake, "I've been here as long as him so it's not like he can fire me or anything. Matt and Emily are my bosses, but I'll do what's needed to help Chris out."

"I've never worked with Emily and rarely with Matt. Chris is the only manager I've ever known here. He hired me and trained me so I have no problem with him telling me what needs to be done," said Lindsey, a newer employee.

CONTINUING DECREASE IN SALES

Beginning in 2009, revenues began to decrease consistently (see Table 2). The restaurant industry had been hard hit by the recession. What had always been a competitive industry was now even more competitive with restaurants fighting for a shrinking number of consumers. A higher unemployment rate and lower consumer confidence had both contributed to lower sales numbers. Of course, the owners realized neither they nor their employees had any control over the overall economy, but they were not sure how much of the decrease in sales was due to the bad economy and how much might be due to not having an owner in the store full-time.

The owners were not aware of any way to look at the decrease and know exactly what the cause was. "Well, it's not like we can look at the numbers and say this percent decrease is due to the bad economy and this percent is due to the change in management," said Emily. The most important concern of the owners was to keep the employees focused on doing those things that would keep revenues from falling any further.

"We have no control over the economy or even what we pay for many of our supplies," said Matt, "but we can try to get our employees to provide the best customer service and make the fewest mistakes so people keep coming back."

Given the decrease in revenues and the continuing poor economy, the owners had made changes wherever possible to decrease expenses. Certain janitorial duties such as washing hand towels and cleaning the windows that were previously outsourced were now being done by employees. Also, Matt, as the only owner in town, emphasized the importance to the manager of keeping salary costs low by reducing the hours worked by every employee.

“We can’t decrease our rent, our phone or even our electricity costs but we can make sure people go home early when we are slow. We can also tweak the work schedule so we don’t have too many employees scheduled for times when we know we are typically slow. I worry about cutting hours too much though. At some point, customer service might be adversely affected but I don’t know what that point is,” remarked Matt.

The Wrap Shack’s poor performance through the recession had led to Emily and Matt both being involved more than they would like in the daily operations of the store. Although, Emily and Matt were still trying find ways to increase revenues and decrease expenses, they were at a point where they would love to be able to have the store run smoothly without them having to be there. “I know I am ready to give Chris the power to make all the decisions and so is Matt. Chris already has a fairly clear idea of the financial resources available, and he does seem willing to do whatever it takes to not only save the business but turn it around,” says Emily. “We just have to figure out what we need him to do.”

ISSUES TO CONSIDER

STRATEGY HIERARCHY

When creating and implementing strategy, organizational leaders and members must concentrate on multiple levels of strategies. The top level is corporate strategy, which focuses on what businesses a firm should be in. The next level is business strategy, which focuses on how the firm will compete within each business area. Firms that compete in different industries or businesses must have a business strategy for each of their different businesses. The next level is functional strategies. These strategies focus on how each function of the organization will contribute to achievement of the business strategy and corporate strategy. Functional strategies are usually in the form of formal or informal policies and procedures implemented in different functional areas. In general, the accomplishment of the functional strategies should lead to the accomplishment of the business strategy which in turn should lead to the accomplishment of the corporate strategy.

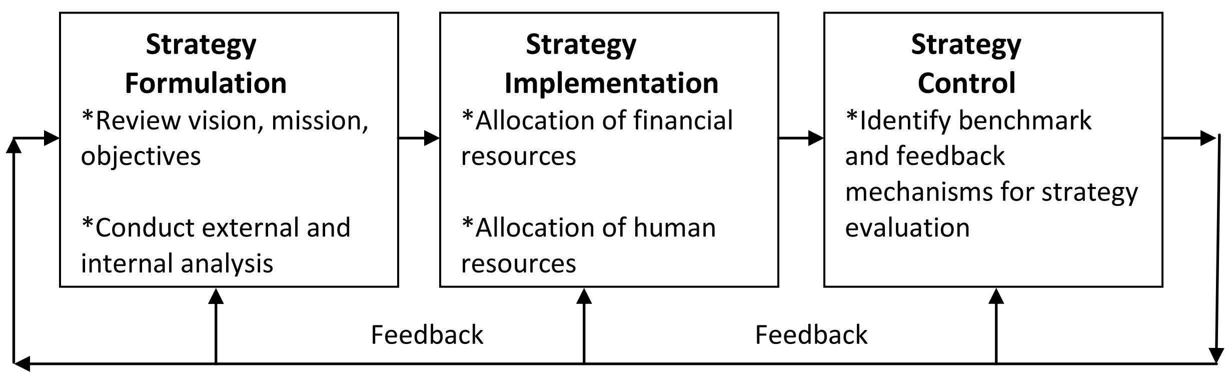
Strategies must be formulated and implemented at each of these levels. It is not enough for a business to claim, for instance, that they provide the highest quality sandwiches. This business must also formulate how each function in the business will create value and help accomplish this business strategy.

In this case, this Wrap Shack Sandwiches location was pursuing a differentiation business strategy set by the corporate franchise. This business strategy was based on delivering healthy, high quality ingredients sandwiches rolled in a tortilla. Emily and Matt had also chosen to pursue high customer and employee satisfaction as another source of differentiation. The sources of differentiation for the business strategy were well formulated, but the functional strategies to support this business strategy were much more informal and loosely defined. Other than the functional strategy in the form of specific policies and procedures in the operations area, most of the policies and procedures that were used at the store seemed to be informal.

STRATEGY IMPLEMENTATION

Formulating a strategy is just the first step in strategic management. The Strategic Management Process (see Figure 2) contains three interrelated yet somewhat distinct parts: strategy formulation, strategy implementation and strategy control (David, 2009). The strategy formulation step of this process has already been determined. The franchise pursues a business-level strategy of differentiation based on providing healthy, high-quality rolled sandwiches. However, while every individual franchisor does need to follow this source of differentiation, the franchise gives franchisees a great deal of freedom in pursuing other sources of differentiation.

Figure 2. *Strategic Management Process*



While high quality ingredients and food preparation was stressed throughout all of the franchise locations, Emily and Matt had created a unique culture when they were actively managing the store that stressed great customer service. They were worried about undertaking any initiatives that might jeopardize either the high quality food or what they saw as the high quality culture.

Two primary issues must be considered when designing ways to implement strategies as shown in the strategic management process model detailed in Figure 2. First is the cost or financial resources needed to implement the strategy. Second is detailing the roles of different employees in the implementation. Decisions have to be made regarding issues such as who will do what and what behaviors are desired. Additionally, all of these decisions must be made considering the financial resources available.

STRATEGY CONTROL

Another concern for the owners was being able to accurately measure any new strategic initiatives at the functional level. For instance, the owners knew they should reward excellent customer service but not how to measure that systematically. Matt remarked, "I feel like I know some of the things I want them to do but how do I measure them, especially when I am not in the store? For instance, it is really good when they can remember our regular customers' names. But if I'm not there to hear them do that, how can I reward them? I just don't know."

Another issue raised by the owners was they wanted to make sure that not only the desired behaviors were being rewarded but also that the employees that were most deserving were being recognized. As Emily explained, "We can spend money on marketing and over time sales should go up, but it might also be some employees are really going all out to increase business. How can I set up a system to reward those employees for the increase in sales beyond those generated by the new marketing? Also, what about those employees who do not perform well even when sales are increasing? Not everyone can be above average, can they?"

As shown in Figure 2 the primary issues surrounding the control aspect of the strategic management process has to do with defining performance metrics (both qualitative and quantitative), desired performance levels, and creating feedback mechanisms.

CURRENT ECONOMIC ENVIRONMENT

Local and national employment rates were still high, but there is always a threat of the best employees leaving if they are not happy. Turnover in the restaurant industry was always a concern. The best employees really could go anywhere. The owners realized that their employees have already agreed to a decrease in hours as well as a virtual freeze in pay rates. The owners worried if they made changes that were too extreme the employees may react negatively.

QUESTIONS

1. What strategic action plans could be implemented to help sustain the business until the economy turns around, and beyond?

    a. What functional strategies might be developed to continue building employee motivation and commitment?
    b. What functional strategies might be developed to increase revenues from both new and current customers?

2. Identify and discuss the key factors facing Emily and Matt and the future of Wrap Shack.

3. If you owned this Wrap Shack franchise, what would you do to help insure the viability of your business?

4. If you were an outside consultant hired to help build the restaurant's revenues and morale, what would your top three recommendations be?

Table 3. *Income Statement for Year ending 2003, 2009 and Six Months Ending June 30, 2010*

	First 2 Quarters 2010	Fiscal Year 2009	Fiscal Year 2003*
Sales (in dollars)	$119,528	$300,890	$531,564
	100%	100%	100%
Expenses			
Cost of Goods Sold	36.7%	33.9%	33.1%
Rent	12.6%	12.1%	4.6%
Royalty	4.0%	4.0%	4.0%
Salaries and Wages	24.5%	24.4%	22.8%
Utilities	3.6%	4.9%	1.9%

*Fiscal Year 2003 numbers are included to show how expense percentages are affected when revenues are higher.
All expense amounts shown as a percent of total revenue

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Implementing Strategy in Tough Economic Times:
A Case Analysis of Wrap Shack Sandwiches

INSTRUCTOR NOTES

This case examines the challenge business owners face when trying to implement functional level strategies with few financial resources. The challenges facing Emily and Matt Stevens, owners of Wrap Shack Sandwiches, revolve around how to increase revenues in their fast casual concept restaurant. Some of the extenuating factors students need to consider are the impact of neither owner working in the store and the current downturn in the economy.

METHODOLOGY

The case is based on the first author's own experience of running a fast casual restaurant with her brother. The case facts are based on her personal experiences as well as in-depth interviews with employees. The first author provided all financial statements and franchise documents needed for the case.

TEACHING APPROACH

The case's focus on implementation of business level strategy through students generating functional level strategies makes it appropriate for Business Strategy, Entrepreneurship or Human Resource Strategy courses at the undergraduate and graduate level. The case particularly works well after a discussion of functional level strategy and implementation for a Business Strategy course. It would also be a valuable real-world example for Human Resource Strategy courses since many of the options available to the owners of the restaurant are geared around improvements to their current, informal HR strategies. For an Entrepreneurship class, this case would do well with chapters focusing on operations strategy or how to formalize operations once the original founder or owner becomes more removed from the day-to-day operations of the business.

The recommending teaching methodology would be to cover the appropriate theory in class, have students read and analyze the case outside of class and come to class prepared to discuss their recommendations for Wrap Shack Sandwiches or with written answers to specific questions as assigned by the instructor.

For a business strategy course, another format for teaching this case would be to assign a question to students and then lead a discussion beginning with industry forces affecting the chosen business strategy (so students understand why there is a need to differentiate), how those higher level business strategies are then implemented on a daily basis in a small business (functional strategies) and finally evaluate the students' specific recommendations for change given the industry factors, franchise restrictions and internal firm environment.

CASE OVERVIEW

The case begins with owner Emily Stevens reflecting on the adverse situation Wrap Shack Sandwiches finds itself in at the beginning of 2010. Revenues have been decreasing since she ceased being in the store full-time in fall 2009. The case then presents the history of Wrap Shack Sandwiches in Florida over the previous nine years including its financial performance. The history includes background on the culture the owners, Emily and Matt Stevens, tried to create as well as the organization structure, business strategy and current practices in the functional areas of operations, marketing and human resources.

Background on the industry and the current economic situation is also reviewed. This information is provided so students understand that the decreasing revenues may be partly due to the economy but are also due to problems with how functional level strategies are implemented with no owner on site. The case ends with a review of the relevant theory and models that will help guide students in their analysis of the case.

LEARNING OBJECTIVES

- Create functional strategies to achieve a specific differentiation strategy within a small business;
- Create specific, implementable action plans for the functional strategies.

DISCUSSION QUESTIONS

Q1: Discuss the attractiveness of the fast casual restaurant industry by applying Porter's Five Forces.
The purpose of this exercise is to reinforce the low expected profit margins in this industry and to steer students toward cost-effective functional strategies. In class or before class, have students conduct a quick industry analysis of the fast casual restaurant industry to help identify critical success factors by applying Porter's Five Forces analysis (Porter, 2008). This should be an industry segment most students are familiar with. In general, the fast casual segment of the restaurant industry is unattractive which tends to result in low profit margins. Teaching Note Exhibit 1 shows a completed Porter's Five Forces analysis.

Threat of new entry – High. Key barriers to entry include capital requirements, economies of scale, cost advantage, and product differentiation (Grant, 2010). The capital required to open a restaurant varies significantly throughout the industry depending on factors such as location, business model, level of service, and dining category. The fast casual restaurant segment has a high initial capital contribution, especially if there is a franchise cost and royalty fees that are paid up front. Other than the initial fees as a barrier, other requirements such as licensing, food procurement, advertising and other functional areas of operations are relatively easy to navigate within the industry.

Threat of substitutes – High. A substitute product provides functional similarity to the original product. The performance and quality of the other options also play a role in the buyer's tendency to substitute. The downturn in the economy and high unemployment rates have forced diners to curb the frequency of dining out. Shoppers save money on eating out by switching from fine dining to fast food, which may be a key opportunity for helping Wrap Shack grow revenues. Supermarket home meal replacement is also a key substitute that has replaced restaurant fare.

Bargaining power of suppliers – Moderate. Food and beverage cost constitutes one of the biggest line item expenses in the restaurant industry (over 30%). Restaurants negotiate directly with local, regional, and national foodservice suppliers to ensure that they receive the desired quality, freshness, and price. It is relatively easy to find a vendor who will supply products at lower prices. Additionally, there is no cost in switching or adding additional vendors. The reason that supplier power is moderate in this industry is strongly representative of the commodity markets that relate to purchasing. For example, the cost of cheese is set by the market. Therefore, vendor pricing may vary by pennies per pound. This factor drives supplier power upwards as it does not make sense for the restaurant owners to switch suppliers as they are not saving substantial money. At that point, service and delivery of goods play an integral role in deciding on a supplier.

Bargaining power of buyers – High. The power held by buyers depends on their sensitivity to price and their relative bargaining power (Grant, 2010). The current state of the economy gives restaurant firms little pricing power. In the restaurant industry, the customer holds the ultimate power as there is no opportunity cost in the customer switching to a different restaurant.

Intra-industry rivalry – High. The fact that most restaurants sell similar products and services creates a challenge for most restaurants. Restaurateurs are competing for the same food dollar that the consumer is spending (Grant, 2010). Competition is influenced by a number of factors including the number of competitors, perishability of products (high in the restaurant industry) and switching costs. The diversity and number of restaurants, combined with the depressing effects of the economic recession, have created significant price competition. Restaurants are cutting prices, offering promotional discounts and coupons, and creating lower-tier price tiers on the menu (Basham, 2010).

Q2: What are Emily and Matt Stevens currently doing to implement the business strategy of differentiation for Wrap Shack Sandwiches?

The question serves as a review of what policies and procedures are currently in place. One easy way to show students this information is to create a table showing the different areas discussed in the case. See Teaching Note Exhibit 2 for examples of what informal and formal functional strategies were being pursed. Be sure to point out that the functional strategies, policies and procedures were quite formal for the operations area with quantitative means to measure performance (i.e. weight of portions, width of cut vegetable, size of sandwiches in inches). An additional point is that the marketing and human resources functional strategies were all informal but that does not mean they were effective. For instance, the low turnover rate suggests that employees were satisfied.

Q3: Create specific, implementable strategies at the functional-level that can be used to support the business-level strategy.

In order for students to come up with a variety of different functional strategies they must understand what the company was doing as well as what business level strategy the firm was trying to achieve. Students also need to realize that to a certain extent they are being asked to look at the informal policies that the owners, Emily and Matt, had initiated and figure out how to formalize them in a way that does not require the owners to be in the store on a full-time basis. As shown in the Strategic Management Process in Figure 2, students need to focus on the cost of strategies and what employees will be involved. Also, students need to think about the control step of the process by identifying quantitative and/or qualitative metrics to benchmark performance and provide feedback.

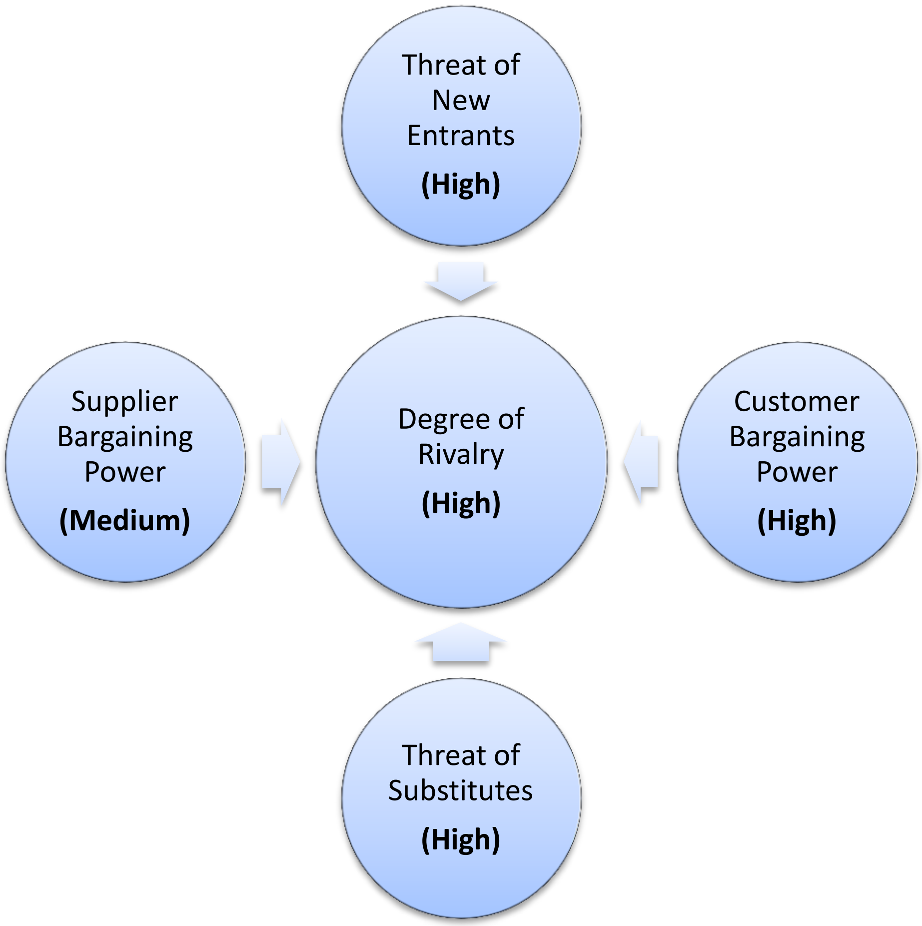
When leading students in discussion, focus on the specific and implementable aspects of their recommended functional strategies. These strategies should be specific enough that the owners could take the strategy as written and be able to implement it at the store immediately. For instance, a student may recommend that employees be rewarded for providing excellent customer service. This recommendation is neither specific nor implementable in its current form. The student would need to identify what specific behaviors should be rewarded and how those behaviors can be measured (especially considering that neither owner is in the store on a regular basis). Additionally, the student should have recommendations for specific rewards since money is limited. See Teaching Note Exhibit 3 for a table that might be used to evaluate the students' recommendations.

Depending on specific recommendations, the following considerations might be important: good employees can easily go to another restaurant if changes bother them; neither owner is present in the store; current manager is former co-worker; employees have already sacrificed to help the business; money is limited for any recommendation; franchise contract limits some available actions.

REFERENCES

Basham, M. (2010). *Industry surveys: Restaurants.* New York: Standard & Poor's.
Grant, R. M. (2010). *Contemporary Strategy Analysis* (7th ed.). West Sussex, United Kingdom: John Wiley
Porter, M. E. (2008). The five competetive forces that shape strategy. *Harvard Business Review*, 86(1), 78.

Teaching Note Exhibit 1. *Porter's Five Forces for the Fast Casual Segment of the Restaurant Industry*



Teaching Note Exhibit 2. *Evaluation of Current Functional Strategies at Wrap Shack Sandwiches*

Current business strategy and how is it being implemented within the firm:

- Differentiation based on fresh, high quality sandwiches served rolled in a tortilla (from franchise)
- Differentiation based on excellent customer service and high employee satisfaction (from Emily & Matt Stevens)

Functional Area	Current Strategy	How implementing this functional strategy affects accomplishment of business strategy?
Operations	1. Many procedures and policies in place regarding both preparing food and assembling sandwiches. 2. Also procedures and policies in place regarding food ordering.	1. Maintain high quality in the form of consistency across sandwiches and ingredients. 2. Maintain high quality in the form of excellence by limiting the items individual franchise owners can purchase.
Marketing	1. Very few formal policies. Owners evaluate marketing opportunities on a case-by-case basis. 2. No metrics tracked to know how successful different strategies are.	1. Current functional strategies, policies and procedures to not help achieve business strategy in any consistent way.
Human Resources	Few/no formal policies but Emily and Matt Stevens do have some informal procedures they have been following. 1. Hiring: Interview to hire employees who are friendly, outgoing and work well in teams. 2. Training: Emily and Matt were training every new employee. 100% on the job. 3. Performance Evaluation: Very informal. Performance complimented or corrected as it is noticed by owners. Appears that some employees also supply peer evaluations but informally. 4. Compensation: Hired at minimum wage. One raise given once employee memorizes entire menu. After that initial raise, all raises were awarded informally usually when an employee asked.	1. If informal human resources policies and procedures actually resulted in employees more willing and able to provide excellent customer service, then these strategies supported differentiation based on excellent customer service. 2. Based on turnover rate before the departure of both owners, it appears that the informal human resources policies did increase employee satisfaction leading to a low turnover rate.

Teaching Note Exhibit 3. *Evaluation of Student Recommendations*

Functional Area for Recommendation	Recommendation	Financial resources, human resources, and metrics used	How implementing this functional strategy affects accomplishment of business strategy?
1. Operations	Specific and implementable policies and procedures	Make sure students think about the cost of the recommendation, how it will affect employees (who will make decisions, what performance will be expected, etc.), and how performance can be measured.	Students should be able to identify what specific part of the business strategy of differentiation is being targeted by the functional strategy.
2. Marketing			
3. Human Resources			