Case study: Remaking a restaurant chain

Putting mind-set shifts at the core of a transformation initiative helped a US restaurant chain successfully improve performance across 550 locations.

One US restaurant chain found itself in a bind when the minimum wage increased in many states, increasing its direct labor expenses at a time when revenues across its entire market segment were declining. Leaders were determined to achieve lower costs without compromising customer experience.

They set the goal of building a model restaurant in 30 days that would, without any additional technology spending, reduce direct labor costs 40% (enough to improve profit even in the tougher environment) while maintaining—or improving—customer experience.

This meant finding ways to make the restaurant staff 40% more efficient. Corporate leaders assembled a team of frontline servers, kitchen staff, managers, and home office workers including marketing and IT to tackle the challenge.

Going out of bounds to find an answer

At the beginning of discussions, the corporate leaders made it clear that the menu was untouchable. However, the cross-functional team quickly identified the menu as the main problem. It was huge—several pages long—and many of its items were off theme for the chain and only rarely ordered. (These items had been added to address a tactical challenge in this market segment: the possibility of a whole group of people not going to the restaurant because one person didn't like the menu.)

What the cross-functional team could see, for the first time, was that when central, corporate decision makers added items to the menu, it created mass inefficiencies for workers in the kitchen and the servers—and the front line had never before had a way to make that known to the corporate leaders. For example, all the ingredients for all the dishes did not fit on the cooks' line, so ingredients were split between the kitchen and back-room storage areas. This meant that when some items were ordered, a cook had to leave the line and go to the back room to get ingredients, losing time. Another issue was increased cost from wasted ingredients when items weren't ordered before their ingredients were out of date.

So, with these issues in mind, the team reviewed the menu item by item and created a new, simpler menu that was held to a few other key standards: each menu item should be something each location could execute well, at no significant incremental cost; consistent with the brand; and something that customers valued (as shown by purchasing data).

Beyond the core mind-set shift of shrinking the menu, trying a new menu in a one-off way required another mind-set shift for this team: typically, new menu items had to go through a rigorous process of product development, marketing, and other central functions, which took at least 60 days, but the new menu was finalized and in testing within a week.

Because all the ingredients for the new menu fit on the kitchen line, nobody had to make extra trips to storage, and this change alone markedly increased kitchen efficiency.

But the team didn't stop in the kitchen. They also sought ways to increase the value-added activities performed by servers, busboys, and other front-of-the-house staff while reducing non-value-added activities, again without having a negative effect on customer experience.

Recognizing that reducing labor costs would also involve cutting some services, the team focused on involving the customer in activities previously executed by the front of the house. The team knew, based on customer surveys, that customers had an expectation of high-touch service when they came into the restaurant, so in order to make these changes acceptable to customers, the team focused on self-service activities that would also enhance the customer experience. The team added a do-it-yourself milkshake station, which allowed customers to design and make their own milkshakes. Recognizing that customers liked to try many different sauces with their meals, the team made the full menu of sauces available at a self-service sauce bar. The team also added beverage stations, where customers could create their own beer flight or soft drink mix. Finally, the team piloted having no host on duty during off-peak times, allowing customers to choose their own seating. While customers were initially surprised by the changes, their feedback on most of these new options was positive, allowing the company to explore how these could be scaled to reduce overall labor costs.

The pilot was a complete success: kitchen labor expenses were reduced by 40%, and front-of-the-house labor by 35%. The pilot store posted the highest hourly sales in the restaurant's history.

From pilot to national rollout

Based on the pilot's success, the restaurant chain's leaders decided on a national rollout. However, recognizing that the changes were significant and could create a lot of disruption to the brand, especially in the age of social media, the company took a targeted rollout approach, to gain the most leverage from each change. For self-service food and drink options, the focus in the first phase of the rollout was on stores whose design footprint best supported the increase in restaurant foot traffic of customers going to and from shake and beverage stations and sauce bars. The self-seating model during off-peak times was used only in stores that truly had periods of lower traffic. Larger restaurants attached to malls, for example, had a more consistent customer flow and thus this change was less likely to be successful in those locations. The menu changes were rolled out one region at a time, so that the company could effectively manage the internal disruption created by new purchasing processes, kitchen setups, and preparation procedures. Taking a targeted rollout approach also helped produce some early wins, which helped build goodwill and buy-in for the changes among restaurant managers and staff.

During the rollout, the company used metrics on how fully these new processes were being implemented as its most important assessment of success, rather than using the more usual output measures of customer satisfaction or table turnover.

Widespread mind-set changes, particularly among restaurant managers, were also crucial to the success of the national rollout. Restaurant managers needed to trust that the corporate leaders were making sound decisions and not risking their jobs, just as the corporate leaders needed to trust that restaurant managers were implementing the changes as designed. So corporate leaders clearly communicated to restaurant managers the reasoning behind and initial successes created by the changes and the expected results for the chain as a whole. Corporate leaders also committed themselves to the changes.

Many restaurant managers were still hesitant to trust that the changes would be more beneficial than disruptive. One specific widespread concern was each restaurant's net promoter score, which measures customer feedback and helps managers evaluate and improve their customer loyalty. Managers typically looked at these on a daily basis and made day-to-day management decisions based on them. And those scores took a bit of a hit as customers got used to the changes. Some managers thought they knew better.

However, the chain's leaders had created time and space for leaders to experiment with the changes, including the metric change noted earlier. The leaders reinforced their focus on that implementation metric, which helped managers through the transition.

Finally, although retraining was not necessary for the restaurant workers, in this case the company's senior leaders found themselves challenged to work and think in different ways. The chain's leaders learned how to blend processes and skills to develop and rapidly test new solutions.

Accelerating performance though mind-set shifts

A chain restaurant might seem like just the kind of organization where, if mind-sets were a barrier to strategic change, the problem would be in a front line that is huge, compared with the corporate staff size. But even here, the corporate leaders needed to shift their own mind-sets first. Once they did that, they were able to devise a strategy and build confidence in it that supported the rest of the company in creating a step change in operational efficiency and financial results.

To learn more about how leaders can accelerate performance with a focus on mind-set shifts, see the report "Successfully shifting mind-sets to accelerate performance," on heidrick.com.

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