

Wendy's chili case essay sample



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Executive Summary

Dave loved a good burger, and was tired of waiting over 30 minutes for one. So he opened his own restaurant and named it Wendy's, after his daughter. One thing that always plagued the decision makers, how much does it cost to make a bowl of chili? Should they keep or eliminate the chili product from the menu? After, analyzing full cost and out-of-pocket; the choice not to eliminate Wendy's chili would benefit them in the long run. Introduction

In 1969, R. David Thomas founded Wendy's, named after his youngest daughter. " His goal was to provide customers with bigger and better hamburgers that were cooked to order, served quickly, and reasonably priced (p. 1)." Wendy's achieved its initial success by differentiating itself from its competitors by selling fresh and made-to-order burgers, not premade frozen patties. Being simple and doing what they do best, offered a limited menu consistent of: 1, 2 or 3 quarter pound patties, chili, Frosty dessert and fries. Dave wanted to serve high quality and fresh food to his customer, " Quality is our Recipe", when other franchises at the time were serving frozen patties, premade and produced in mass quantities (Dave's Legacy). Wendy's offered " old Fashioned" hamburger, Frosty Dairy Dessert, chili, and French fries as their " limited menu" as a way to focus on what they make best as a part of the Wendy's way.

The menu may look limited, but when the hamburger is made-to-order customers can choose 1, 2 or 3 quarter pound patties in addition to the " 256 possible hamburger combinations (p. 2)." " The idea was to concentrate on doing only a few things, but to do them better than anyone else. As a result,

the aim was to provide the customer with a “ Cadillac” hamburger that could be custom-made to meet individual preferences. (Robinson & Davis, 2000, p. 121).” The limited menu has some disadvantage, mainly the reason being limited, lack of variety and options, compared to fast food and other restaurants, which have more to offer. This concept worked prior to the 1980's economic down turn, as it was different from the rest. Customer's taste changes often, so the limited menu is not flexible to their changes.

What if the customer wanted chicken, fish or vegetarian; or the customer decided they wanted to eliminate bread or wanted to eat local produce? Wendy's limited menu would not be able to adapt to this. In 1979, there were a few factors that affected the restaurant industry, increases in: inflation and energy, wages, and beef. Their fresh ground beef and house made patties would most likely cost more than their competitors' premade frozen patties. Wendy's counter this by offering: chicken, Garden Spot salad bar, and kid's menu (Robinson & Davis, 2000, pp. 121-124). The menu was no longer limited. In addition to one of many problems Wendy's faced, was trying to figure out the true cost of the chili bowl because knowing the exact cost will help executives determine whether to keep or eliminate this product.

The Analysis

Wendy's “ Old Fashioned” burger and chili is a joint product with a common ingredient, the ground beef patties. The burger is the main product because as it has higher sales revenue than the chili, about 55% of total Sales.

Therefore, the chili is classified as the by-product of the burger, as it reuses

the overcooked or unsold burger patties and is only 5% of total Sales. See Appendix for the following explanation of calculations. The full cost of a chili bowl is \$66.35 (\$1.16 per an eight ounce (oz) serving or \$1.17 per 12oz serving). The Spilt off Point is at cooking because either the crew is cooking for the burger or chili. This includes the cost of the prepared patty \$43.20 (48 prepared patties at \$0.90 each), Direct Labour of the Assistant Manager \$4.725 to prepare the chili batch in 15 minutes, Direct Material of ingredients \$ 14.50 and other Direct Materials at the time of sale \$3.99.

The profitability of the chili is at loss of per 8oz serving or if the whole batch is serve at 8oz and per 12 oz serving or if the whole batch is serve at 12 oz. This method does not properly forecast the high and low season of chili sales. It assumes that Wendy's Chili is always made from scratch; all patties made are all sold and is worse case scenario if the Chili has to be cooked during the low season or 10 percent of the time. If this was the case, where the chili has to be made from scratch, then all employees will need to be aware that they should push the sale of the 12 oz chili to minimize the loss by over per serving or per batch. At Out-of-Pocket, the cost of a chili bowl is \$24.09 per batch (\$ 0.42 per 8 oz or \$0.63 per 12 oz serving).

This is the Spilt off Point, where the chili is processed further from, overcooked or unsold patties is at time of sale. The allocation of cost does not include the cost of making the patties because it already is included in making of the burger and assumes that over the course of 1 to 2 days will accumulate 48 over cooked or unsold patties; all other cost remains the same. The Out of Pocket calculation yields a higher profit margin of \$32.34 (\$0.57 per 8oz serving) and \$36.33(\$0.96 per 12 oz serving) and looks

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more favourable than the Full cost method. This might not constantly sustain if both burger and chili's high demand season is from October to March.

Recommendations

The analysis would be more accurate if Wendy's provided more data, such as: number of patties made, number of chili bowl sold at 8oz and 12 oz, how many times (month by month) did the Assistant Manager had to make the chili from scratch and so on. Also, the cost of disposing wastage would help determine the cost benefit of wastage over process further into chilis. Cost can also decrease if the crew's time (\$5. 75 per hour) is utilized more in this chili process rather than the Assistant Managers (\$10. 50 per hour). The Assistant Manager can pre-make the batches of spices in the bags, so the crew can perform the rest of the process. In order for the chili bowl to survive, the cost has to be Out-of-Pocket because the burger sales are high enough to absorb the cost of each patty.

The advantages of Out-of-Pocket cost are: the cost of the patties have already been allocated to making of the burger and the remaining cost is the direct labour, the ingredients and serving the chili and any overcooked or unsold patties will not be thrown out and cost of disposal will be minimized, and sales will maintain or increase. Maybe during the high season, Wendy's can increase the anticipated demand of patty cooking production for overcooking or unsold patties, and making the chili between batches would not take 1 to 3 days of patty accumulation. However, the made from scratch full cost method would only benefit the fresh savory taste.

The loss in Gross Margin indicates that if Wendy's constantly make this from scratch then they will need to increase prices and possibly offer an extra large 16oz bowl of chili during the busy months. They might need to look into their burger and chili making process and determine what activity they could eliminate, for example: cooking the patties specifically for the purpose of making chili or may consider the Out-of-Pocket cost. Therefore, Out-of-Pocket is best suited for making Wendy's Chili and the executives should not eliminate it.

Conclusion

When Dave started Wendy's in 1969, his vision was "Quality is our Recipe" as food should be made fresh. The "Old Fashioned" burger was prepared the same day as it was cooked and not frozen. They had a lot of growth, as well, declining sales and economic issues. From the 4 original limited menu items, their chili was only 5% of total sales; therefore, executives pondered, "Should we keep or eliminate the chili"? After, analyzing the full cost and out-of-pocket cost, if Wendy's is able to manage the out-of-pocket cost they should keep the product as it may benefit the burger.

Assistant Manager 10.50/hr 15 Maximum 15mins to prepare the batch of chili
 Assistant Manager 10.50/hr 15 2mins per hr to stir the pot X 6 hrs maximum cooking
 12mins of stirring the pot breaking up the precooked patties
 5 total Assistant manager's time 27mins 2mins per hr to stir the pot X 6 hrs maximum cooking
 12 Total Assistant manager's cost $(27/60 \text{ mins}) * 10.50/\text{hr} = 4.725$ total Assistant manager's time 32

8oz X 57 servings 456 ounces

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Total cost of chili at full cost cooked from patty cost Total Cost at Out of Pocket cost Cost of the patty \$0.90 per patty X 4843.2 cost of patties 0 Direct Material (ingredients) 14.5 Direct Material (ingredients) 14.5 Other Direct Material at sale 3.99 Other Direct Material at sale 3.99 Direct Labour 4.725 Direct Labour 5.6

Total cost of chili at full cost 66.415 Total cost of out of pocket 24.09 per 8 oz serving 66.415/571.17 per 8oz serving 24.09/570.42 cost per ounce 0.15 cost per ounce 0.05283

8oz 12oz 8oz 12 oz

selling price per 0.99 1.59 Selling price 0.99 1.59

cost per serving 1.17 1.75 Cost per serving 0.42 0.63

Gross Margin per serving -0.18 -0.16 Gross Margin 0.57 0.96 Gross margin per batch -9.99 -6.00 Gross margin per batch 32.34 36.33

Work Cited

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