

THE PUB: GROWING A MATURE BUSINESS

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The Selwyn Pub was entering its 17th year. Each year revenues had grown. Last year, however, the rate of growth had slowed considerably. While eighty percent of the revenue was generated from the sale of alcoholic beverages and nearly 60% of those sales occurred in the warm months. While several changes had been made to the Pub in the past 3 years to increase food and cool weather sales, however, these actions had little effect. It was clear that changes would need to be made if the Pub was to return to its former growth pattern.

INTRODUCTION

Walking in the front door of his baby, the Selwyn Pub, Jim Foster was clearly worried. Jim had established the Pub in Charlotte, NC, 17 years ago, and each year revenues and profits had grown but in 2006 the rate of growth had slowed considerably. As Jim thought about his revenue stream he noticed that 80% of his revenue was generated from the sale of alcoholic beverages and only 20% from food sales. Further, sales were concentrated on Thursdays, Fridays, and Saturdays, the summer months, and certain day parts. Three years ago he had enclosed the outdoor area in the winter and concentrated on improving the food served. However, these actions had not resulted in any significant revenue growth. Further, as he thought about his customer base, he realized that while he had a loyal group of long term customers, he had not been able to increase the number sufficiently to grow the most profitable portion of the customer base. In a recent student survey, the Pub had not done as well as Jim had expected against his competition. Jim relied on word of mouth to build his clientele; however, Jim's competitors had become much more aggressive in advertising their bars. Several of Jim's business colleagues had suggested that the time had come for him to begin a focused advertising campaign to invigorate revenue and new customer growth especially during the slow winter months.

BACKGROUND

Jim worked in an Irish Pub while attending Albany Law School in upstate New York. Upon graduation, he moved to Charlotte where he established a tax prac-

tice. Although his tax practice was successful, he found the work less than fulfilling. When in the early 1990's a small Cuban restaurant in the affluent Myers Park area of Charlotte became available, he decided to follow his dreams and take a long term lease on the property. The property had several plusses; first, its location was in the heart of the Myers Park, an area which was considered a very fashionable place for the 25-45 professionals to live, second, the location was on a main thoroughfare enabling easy access, and third, the location had a huge oak tree and room to build an outside seating area capable of serving 100 customers. On the negative side, parking was limited during weekday-working hours, however in the evenings and on weekends, patrons could use the adjacent parking lot reserved for several small businesses. Second, inside seating was limited to 45 and contained a bar and 8 tables. Since smoking was not yet prohibited in drinking establishments in Charlotte, the pub could become quite smoky; this was not a problem in the outdoor area. Finally, the kitchen was small and due to zoning regulations, expansion was not possible(see exhibit 1 for pictures of the Pub).

Over the past 17 years his decision turned out to be a good one. Focusing on a friendly atmosphere where young professionals could drop in and meet friends after work, or on the weekend, the bar quickly became popular spot. The Pub had been voted The Best Outdoor Bar by Sneaky Sunday¹. It had even been mentioned in Kathy Reich's book *Death Du Jour*. The Pub focused mainly on beer sales, and had an assortment of 25 different brands on tap or in the bottle. To avoid becoming a college bar, the pub was only 1 mile from a local university, or from attracting a non professional crowd, Jim maintained a strict policy of never offering beer specials. There were no happy hours, no dollar beer specials, and no two for one deals. With a price of \$3.50-\$4.75 for a beer, the policy had served not only to insure a relatively affluent clientele, but a loyal one as well. Jim felt that the policy had worked well, especially when he read two reviews on the local Citysearch.com web site. "One of my friends talked me into going here (another bar) on a Wednesday night. Take my advice girls- stay away. ...From now on I am only going to the bars where the guys can afford to pay more than \$1 for beer."² Another reviewer wrote, "I would love to have cheap beer but I can't stand the rough crowd that always seems drawn to the cheap beer specials at many other bars in town."³

From the beginning the Pub offered a limited menu of food. Due to the size of the kitchen, offerings tended to be salads, fried foods, wings, and pizza. Recently, Jim had been placing more emphasis on serving quality food. He took several cooking classes at the Culinary Institute of America and collaborated with his food vendors to completely revise the menu. His hamburgers were increased

a full 10 ounces of the highest quality beef, chicken wings were large and after cooking sent through the pizza oven to enhance the flavor, and pizzas were hand tossed and only fresh toppings were used. In addition, fried pickles were a local trademark for the Pub. While Jim took great care to provide high quality food, only a limited number of people seemed aware that something beyond 'pub' food was served.

Jim had never been a believer in advertising though he understood that the industry's average for advertising expenditures for pubs like his was 2%-4% of sales, Jim had never spent even 1% of revenue on advertising. Jim summed up his belief concerning advertising as; "advertising has a mass appeal and I have a very narrowly defined target market. It may sound snobbish, but people come to this pub because they want a certain atmosphere. If I advertise, I could encourage a younger (college student) or non professional crowd and that could affect my current loyal customers." Jim had recently decided to sell polo shirts in the pub, and he made a point of giving one to each of his regulars. He was surprised to see how many of them wore the shirts in the bar. Although he had not sold many, those customers that had received one seemed to think of the shirt as recognition of their long term patronage. Jim had also on occasion sponsored a summer softball team and fall flag football team, but not recently. He did not have a web site; he relied on Citysearch.com and the Yellow Pages listing to direct people to the Pub.

CHARLOTTE AND MYERS PARK

Charlotte is the largest city in North Carolina and the 20th largest in the United States, with a population of approximately 610,949. Charlotte has become a major U.S. financial center, and, based on assets, Bank of America, the nation's second largest financial institution calls the city home. The city's economy has matured in the late 1900s and early 2000s to become dominated by financial services, as well as retail commerce. Today 9 Fortune 500 companies are headquartered in Charlotte. ⁴

Myers Park lies about 3 miles from the center city business district of Charlotte. Originally developed in 1911, with its older homes and tree lined streets it is one of the most sought after locations within the greater Charlotte area to live. The area is predominantly white, 25-39 years old, well educated, with moderate to high incomes.

SELWYN PUB FINANCIALS

Jim had been in business for 17 years. Table 1 shows his profit and loss statement

for the past 5 years. While sales had continued to grow, recently the growth rate had declined to about 4.7% per year. Also, in the past 5 years, while food sales had grown by 50%, they did not represent a significant contributor to the bottom line.

Table 1
Profit and Loss Statement 2002-2006
(000)

	2002	2003	2004	2005 *	2006
Sales					
Beverages	\$ 880	\$ 970	\$ 1,120	\$ 1,290	\$ 1,340
Food	\$ 220	\$ 230	\$ 280	\$ 330	\$ 360
Total	\$ 1,100	\$ 1,200	\$ 1,400	\$ 1,620	\$ 1,700
COGS					
Beverages	\$ 260	\$ 270	\$ 330	\$ 380	\$ 400
Food	\$ 115	\$ 110	\$ 140	\$ 160	\$ 180
Total	\$ 375	\$ 380	\$ 470	\$ 540	\$ 580
Gross Margin	\$ 725	\$ 820	\$ 930	\$ 1,080	\$ 1,120
Expenses					
Administration	\$ 40	\$ 40	\$ 50	\$ 50	\$ 40
Salaries	\$ 190	\$ 200	\$ 210	\$ 230	\$ 250
Rent	\$ 80	\$ 80	\$ 70	\$ 80	\$ 80
Advertising	\$ -	\$ 10	\$ 10	\$ -	\$ 10
Utilities	\$ 50	\$ 60	\$ 60	\$ 70	\$ 80
Taxes	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
Depreciation	\$ 10	\$ 30	\$ 80	\$ 60	\$ 70
Total Expenses	\$ 520	\$ 570	\$ 630	\$ 568	\$ 680
EBIT	\$ 205	\$ 250	\$ 300	\$ 512	\$ 440

Quarterly beverage and food statistics demonstrated to Jim that the Pub was not reaching its full revenue potential in the winter months. Table 2 shows a breakdown of the percent of revenue generated by beverage and food sales by quarter. As was apparent, almost 60% of the revenue was generated in the second and third quarters when the weather was warm and the outside area was uncovered. Further, beverage and food sales were relatively consistent with each other.

Table 2
Percent of Beverage and Food Sales by Quarter

	Beverage	Food
First Qtr	22%	15%
Second Qtr	31%	38%
Third Qtr	27%	37%
Fourth Qtr	20%	10%

Due to parking restrictions, the Pub was open for lunch only on the weekends. During the week the Pub did not open until 3PM and did not close until 2AM. The relative customer use was fairly consistent in all seasons, though the absolute number of customers was greater in the warm months than the colder months. Table 3 illustrates how busy the Pub was during different times of the day.

Table 3
Relative Customer Traffic by Day Part

Day Part	Time	Sun.	Mon.	Tue.	Wed.	Thurs.	Fri.	Sat.
Lunch	11-2	M	Closed	Closed	Closed	Closed	Closed	M
Happy Hour	3-6	L	M	M	M	H	H	M
Dinner	6-10	L	VL	L	M	M	H	H
Late Night	10-2	VL	VL	L	L	H	H	H

H=High Traffic, M=Moderate Traffic, L=Light Traffic, VL=Very Light Traffic

COMPETITION

There were several other bars within a 2 mile radius of the pub. These included Eddie's Place, Fairview Grill, and the Angry Ale's. None of these had been under their current ownership for more than 5 years. While each focused on beer and liquor sales, they all had daily drink specials, served food, and many had live music on weekends. From the advertising Jim had seen it appeared that the competitors allocated 3%-5% of their revenue to marketing and advertising. Angry Ales seemed to be the most aggressive in targeting the price sensitive customer with deeply discounted beer. The advertising and promotional vehicles used by the competitors included newspapers, radio, television, local value pack, sponsorships, and various loyalty programs.

Jim had recently sponsored a student research project at the nearby university to

assess the relative position of the pub compared to its competitors. The students went to each establishment, and with the permission of the proprietor interviewed 25 patrons at each location. Respondents were asked to rate each attribute for each bar/pub on a 5 point scale, with 5 being high and 1 being low. The price responses were reversed for consistency. While not a scientific study, the information obtained provided Jim with an overview of the brand position of his competitors. Table 3 shows the results of the marketing research study.

Table 4
Competitor Evaluations

		Selwyn Pub	Eddie's Place	Fairview Grill	Angry Ale's
Beverage					
	Quality	4	4	3.5	4
	Selection	4	3	3	4
	Price	2.5	4	4	4
Food					
	Quality	3	3	4	3
	Selection	3	3	3	3
	Price	3	4	4	4
Service		3	3	4	5
Overall Experience		4	3	3	3
Total		26.5	27	28.5	30

Most of Jim's competitors had live music on the weekends. A recent review of the music scene showed that Angry Ale's had Billarabi on Thursday night, Basil Haiden on Friday night, and The Freeloaders on Saturday night. These bands, typically local, were a significant draw on the weekends. A few of his competitors would also sponsor a game, such as trivial pursuit, and offer a bucket of beer or other such prize to winners.

PROMOTIONAL OPTIONS

Over the years Jim had been visited by salesmen from virtually every newspaper, radio and television station in the area. On the print media side, the *Charlotte News and Observer* the dominate newspaper in Charlotte. A relatively recent addition to the print media options was *Creative Loafing*. This weekly was available at stands throughout the city and was free. It focused on recreational activities including eating, drinking and live entertainment. The Myers Park Homeowners Association also had a monthly newsletter, *The Oak Leaf* that was delivered free to all residents

of Myers Park. Advertising space was available in the newsletter.

On the broadcast media side, all major television networks had affiliates in Charlotte as well as numerous cable affiliates. Time Warner Cable was headquartered in Charlotte. In addition, radio stations with formats ranging from talk to all music were available. Several of the local radio stations would, for a fee, broadcast on location in a local establishment. A few of the Pub's competitors had used local radio celebrities to promote their bars.

On the publicity side, Charlotte hosted numerous 5K and 10K fun runs as well as an annual bicycle race call the Booty Race which was on the streets of Myers Park. There was also a Taste of Charlotte restaurant event held at a local park near the Pub. Local restaurants erected tents and sold small portions of their meals and gave away coupons to promote their establishments.

Jim knew that he must do something to build revenue and profits, increase the food business, and expand the total customer base especially in the slower quarters. However, he did not want to lose the image and client base that he had established over the past 17 years.

What do you think that he should do?

ENDNOTES

ⁱ www.sneakysunday.com/charlotte/bars-clubs/best-outdoor-bar/selwyn-pu, accessed February 23, 2009.

ⁱⁱ http://charlotte.citysearch.com/profile/32292684/charlotte_nc/angry_ales.html, accessed June 7, 2007.

ⁱⁱⁱ http://charlotte.citysearch.com/profile/6279374/charlotte_nc/selwyn_avenue_pub.html, accessed June 7, 2007.

^{iv} http://en.wikipedia.org/wiki/Charlotte,_North_Carolina, accessed June 7, 2007.