

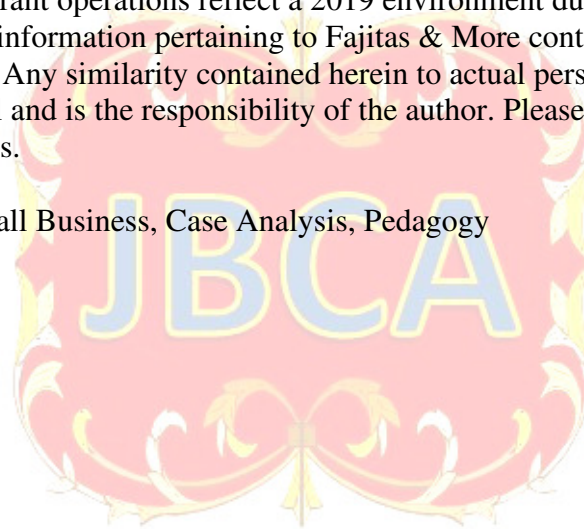
Fajitas & More: A small business analysis

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ABSTRACT

This case, Fajitas & More, was written for the purpose of assessing students' understanding of Strategy, which is the capstone course for the business program. Students should be able to integrate and apply what they have learned in the program to solve organizational problems. The case was developed in the classroom (Fall 2020 through Spring 2022). Outcomes were used to enhance the presentation of course concepts as well as address the specifics of the case. Fajitas & More is a fictitious company; that is, this is a fictitious case about a small, family-owned restaurant in the South competing in a changing environment against larger chains. The owner, Eric, is considering the impact of adding items with edible gold to his menu. Restaurant operations reflect a 2019 environment due to the impact of COVID-19 in 2020. All information pertaining to Fajitas & More contained herein was fabricated by the author. Any similarity contained herein to actual persons, businesses, events, etc. is purely coincidental and is the responsibility of the author. Please contact the case author directly with any concerns.

Keywords: Strategy, Small Business, Case Analysis, Pedagogy



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INTRODUCTION

Eric is a small business owner with a background in the food and beverage industry. He was 16 when he started working in the industry. He realized that he had a passion for cooking, so he went to culinary school. After graduating, he decided to invest in a restaurant.

THE COMPANY: FAJITAS & MORE

Eric opened a full-service restaurant 20 years ago in College Town, USA and named it “Fajitas & More” because of the Tex-Mex menu, which features sizzling fajitas, nachos, tacos, burritos, and burgers. He has a limited alcoholic beverage selection—beer, wine, champagne, and margaritas. Eric is a certified chef with a culinary arts degree. He specializes in Tex-Mex cuisines, utilizing authentic Mexican ingredients to create homestyle dishes. The company does not have a mission statement because he did not think it was necessary for a small family-owned business with one location. Much has changed over the years. When he started the business, he had the only restaurant with this menu within a 30-mile radius. New restaurants have opened in the area with similar dishes: a full-service steak house with fajitas and burgers and a fast-food restaurant with tacos and burritos. In addition, other restaurants have entered the market with various themes/concepts, selling pizza, fried chicken, and Asian cuisines. The new restaurants are larger and represent chains. The local economy is strong because it is home to State University, a well-known university, which employs a lot of people; however, the University provides an all-you-can-eat cafeteria for its students and employees. The labor pool is larger than the average town because of the large student population. Students like to eat out but typically have limited budgets. The demographics have changed over the years. The Hispanic and Asian populations are increasing. Additionally, many people are focused on healthy eating and fitness.

The restaurant’s operating hours are 10:00am to 9:00pm, which requires two shifts. The first shift works 8:00am-4:00pm, and the second shift works 3:00pm-11:00pm. Employees arrive at 8:00am to set up and prep and stay until 11:00pm to clean and close the restaurant. It is Monday, and Eric is in his office purchasing food and supplies and preparing the employee schedule for next week. Eric has set time aside for his annual review of the company’s operations to identify problems and develop alternative solutions. A review of last year’s financials revealed the following:

1. Weekly sales = \$20,000 (with 60% of the sales occurring Friday-Sunday)
2. Total sales = 80% eat in + 20% take out
3. COGS = 40% (of sales)
4. Operating Expenses (other than labor) = 15% (of sales)
5. Employees = 20 (all fulltime at \$8/hour)
6. Eric’s salary = \$1,000 a week
7. Tax rate = 35%

Eric is thinking about the future direction of the restaurant. He has noticed a negative trend in sales growth the last few years. He knows that a sustainable business model requires a target profit margin (EBIT) of 10%. Eric is contemplating the appropriate strategic actions to maintain the company’s competitive position.

THE LOCATION: COLLEGE TOWN, USA

College Town is a thriving college town in the South with small-town values. The city, like the country, is becoming increasingly diverse as indicated in Table 1 (Appendix A). Both the Hispanic and Asian populations are increasing, although less than the national level; nationally, Hispanics and Asians represent approximately 19% and 6% of the population, respectively (U. S. Census Bureau, 2021). Much of the change is fueled by the changing demographics of the University's student population.

College Town exudes southern hospitality and charm with its friendly people and artisan shops. Additionally, small city living has its advantages, such as a low crime rate and a focus on family values. Sports are a primary form of entertainment. Although College Town has a population of 25,000, approximately 325,000 people live within a 30-mile radius.

THE INDUSTRY: FOOD SERVICES AND DRINKING PLACES

The Food Services and Drinking Places subsector consists of four industries: full-service restaurants, limited service eating places, special food services (e.g., mobile food services, caterers, and food service contractors), and drinking places (U. S. Bureau of Labor Statistics, 2022). From 2016 to 2019, sales (not seasonally adjusted) grew by approximately 5.5% a year to almost \$773 billion in 2019 (U. S. Census Bureau, 2022). The average consumer unit spent 6.5% of annual expenditures on food away from home (5.6%) and alcoholic beverages (0.9%), according to the Consumer Expenditures Report for 2019 (U. S. Bureau of Labor Statistics, 2020). Although food expenditures increased for four out of five of the income quintiles in 2019, no significant patterns emerged across income quintiles; however, food expenditures showed distinctive patterns across generations; that is, consumer units with younger reference persons spent a higher proportion of total food expenditures on food away from home as indicated in Figure 1 (Appendix B). According to the U. S. Bureau of Labor Statistics (2020), Post-Millennials (born 1997 or later) and Millennials (born 1981-1996) spent 52% and 47%, respectively, of their food budget on food away from home compared to the 36% spent by the GI and Silent generation (born 1945 or earlier).

THE OPPORTUNITY: EDIBLE GOLD

An old Renaissance trend is reemerging: edible gold (Smolinski, 2012). It is a global trend, from New York to Las Vegas to Dubai, offering everything from cupcakes to burgers, providing excellent publicity as well as value creation for the owners of eating establishments, which is odd because the expensive ingredients are flavorless and odorless (Smolinski, 2012). Although safe to consume, edible gold adds no nutritional value; however, there appears to be an obsession with edible gold that is impacting luxury cuisine dining because gold elevates a dish by making it more visually appealing, a coveted industry goal (Gibbs, 2016).

Eric is thinking about jumping on the bandwagon. Based on his research, these premium items have a higher profit margin. Additionally, the inherent publicity aspect is also appealing. He is considering the adoption of the following three items, which he thinks would be favorites for celebrations, such as birthdays, weddings, anniversaries, and victory parties:

1. A Golden Steak Taco: \$30
2. Golden Chicken Wings: \$40 (8pc) or \$100 (24pc)

3. A Golden Bun Upgrade for any Hamburger: \$40

As Eric ponders the opportunity, he considers some of the markets where edible gold is trending. New York, Las Vegas, and Dubai are known for their lavish lifestyles; in Dubai, one can find a cupcake adorned in gold leaf for \$1,000 (Smolinski, 2012). In New York, a \$2,700 pizza is available with 24K gold leaves (Scott, 2018). However, the cost of living varies across geographic areas. The cost of living, which aligns with salaries, is typically cheaper in most southern states compared to glamorous states like New York as indicated in Figure 2 (Appendix C). Nevertheless, there is an unparalleled growth trend in global spending on affordable luxury items (Mundel et al., 2021). Additionally, millennials are more sophisticated consumers relative to previous generations, and they seek status purchases that offer experiential opportunities in an effort to make their lives better (Mundel et al., 2017). Eric contemplates the possible advantages and disadvantages of this new strategy while finalizing the company's annual review.

CONCLUSION

Much has changed over the years. Competition has increased, and the market's demographics have changed. The population is now more diverse. However, some research suggests that teens and young adults around the world, despite cultural differences, share many common values because of globalization and global media, which means they are likely to purchase similar consumer goods for the same reasons as their peers (Hill, 2022, pp. 505-507). That trend should also manifest within a country with a heterogeneous population like the United States. Eric understands Strategic Management and the importance of a customer focus. "Customers are the foundation of successful business-level strategies" (Hitt et al., 2017, p. 111). An organization's success or survival is contingent upon meeting the needs of its customers, and successful organizations must endeavor to find new ways of satisfying its current customers as well as attracting new customers (Hitt et al., 2017). Eric also understands that he must be aware of management risk; management risk is the risk that managers respond inappropriately to differences they encounter in foreign markets, such as customer preferences, customs, culture, income levels, and languages, which could result in an action that offends a market's population (Dess et al., 2012, p. 253). This risk is also possible in a country like the United States because its population consists of various subcultures with different customs, income levels, languages, and customer preferences.

QUESTIONS

1. Which theory of competitive advantage most likely explains Eric's decision to open Fajitas & More? (Discuss.)
2. Develop a mission statement for Fajitas & More.
3. Calculate the company's current net income. (Show work below. Assume all necessary information is provided in the scenario.)
4. Eric networks with other small business owners via the local Chamber of Commerce. During a monthly meeting they discussed employee productivity. Assume Eric learned the average employee productivity was \$75,000 per year. Calculate employee productivity for Fajitas & More. What should Eric do at Fajitas & More to match the average employee productivity of the other small business owners? (Show your work.)

5. Develop a SWOT Matrix for Eric's restaurant.
6. Identify and discuss the firm's business-level strategy.
7. Identify and discuss the firm's corporate-level strategy.
8. Eric is thinking about upgrading his menu to increase his sales. Based on his research, 24 karat edible gold is a new trend. Should Eric pursue this strategy? Why or why not? Discuss both the advantages and disadvantages.
9. What is your recommended strategy for Eric (Fajitas & More)? Why? (Discuss.)
10. Eric is approaching retirement, so he is considering exit strategies. Assume an international company is interested in purchasing Fajitas & More and entering the U.S. market. The buyer owns several restaurants in Latin American countries. Identify and discuss the most appropriate international-level strategy for the new owner if he purchases Fajitas & More. Discuss any additional factors (i.e., strategic concepts), which may or may not be discussed in the case, that the new owner should consider before implementing this strategy.



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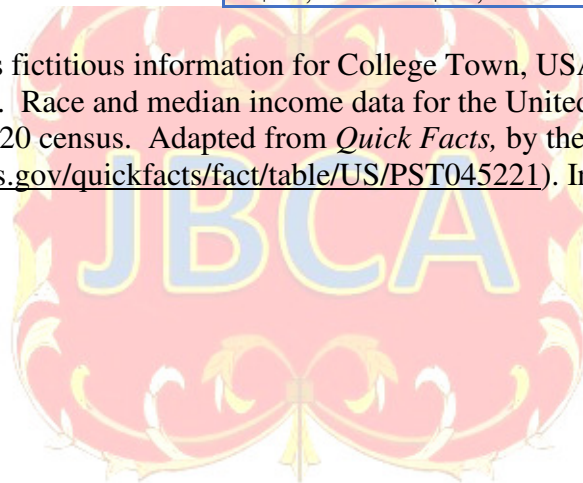
Appendix A

Table 1

Time Series and Comparative Population Data

Population Characteristics	College Town (2000)	College Town (2020)	United States (2020)
Population Size	20,000	25,000	331,449,281
Race/Ethnicity			
White, not Hispanic	70.0%	55.0%	60.1%
Hispanic	5.0%	15.0%	18.5%
Black	23.0%	23.0%	13.4%
Asian	1.0%	5.0%	5.9%
Other	1.0%	2.0%	2.1%
Median Household Income	\$21,000	\$35,000	\$62,843

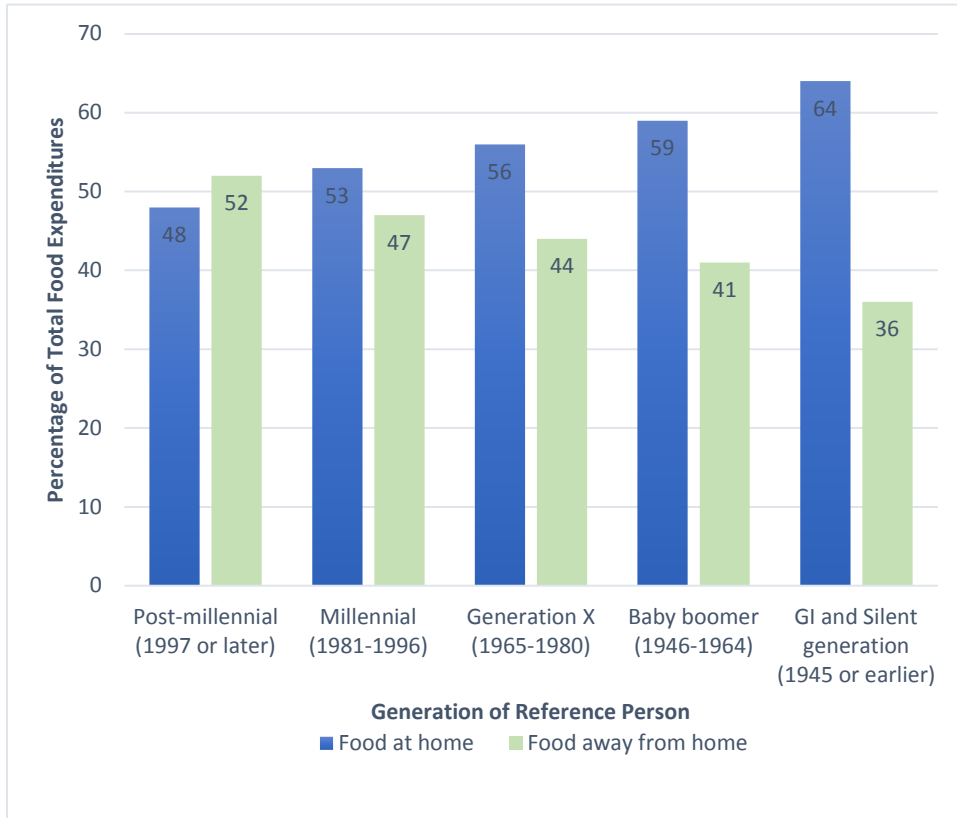
Note. This table provides fictitious information for College Town, USA, and it provides factual data for the United States. Race and median income data for the United States are July 2021 estimates based on the 2020 census. Adapted from *Quick Facts*, by the U. S. Census Bureau, 2021 (<https://www.census.gov/quickfacts/fact/table/US/PST045221>). In the public domain.



Appendix B

Figure 1

Percentage Allocation of Total Food Expenditures by Generation of Reference Person, 2019

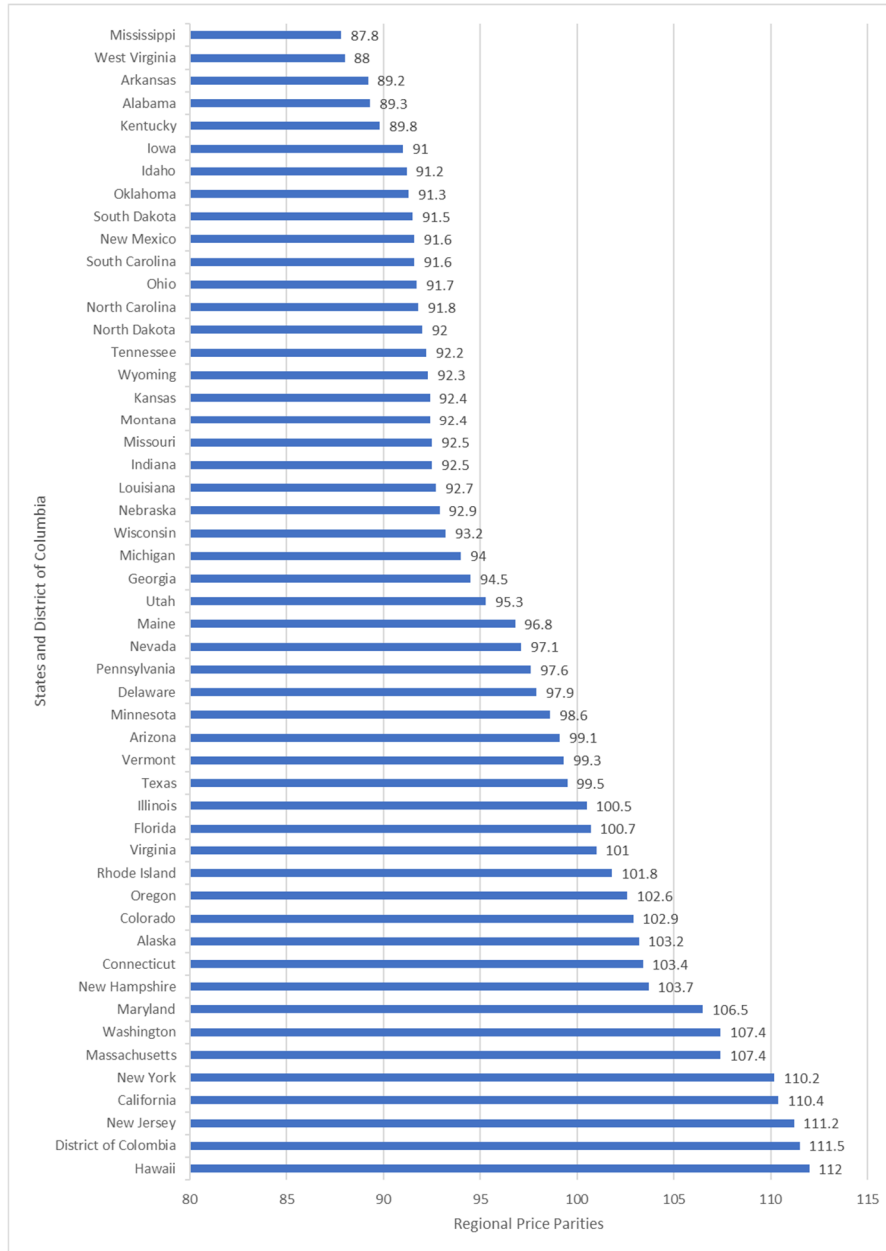


Note: Adapted from *Consumer Expenditures Report 2019*, by U. S. Bureau of Labor Statistics, 2020 (<https://www.bls.gov/opub/reports/consumer-expenditures/2019/home.htm>). In the public domain.

Appendix C

Figure 2

Regional Price Parities for States and District of Columbia, 2020 (U.S. = 100)



Note: Adapted from *Real Personal Consumption Expenditures and Personal Income by State, 2020 News Release*, by U. S. Bureau of Economic Analysis, 2021

(<https://www.bea.gov/news/2021/real-personal-consumption-expenditures-and-personal-income-state-2020>). In the public domain.