

Salsa Dog, “Where The Dog Bites Back”

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Introduction

Bob Walker, the divorced, 57 year old, owner of Salsa Dog, sat alone in his home office with the most recent company financial statements spread out on his desk. Although he spent the last four hours trying to understand where the numbers came from, he quickly knew they meant his business was in trouble. As he stared out the window, he sighed deeply, and said out loud, “Just how in the world did this happen? Maybe I should have stayed working for the good ole’ Post Office.”

The numbers on the financials painted a bleak picture of last year’s performance – his business had not done well. On top of a \$65,900 loss from January 1 to December 31, 2011, he was \$57,000 in debt, had no cash, and no line of credit. However, the numbers represented only part of the picture. For Bob, it was more than just the possible end to a business. Not captured by the numbers was the bitter disappointment he felt about potentially failing at his long-held dream of owning and franchising a business. Also missing from the picture was his dogged determination to turn the situation around. Bob decided it was time to stop thinking about how he got here. Instead, it was time he focused on the decisions he needed to make about the future of his business.

Bob knew that changes would have to be made and made quickly. But, at that moment, he had no idea where he was going to start. Bob already had cut his labor costs in January 2012 when he laid off two employees and reduced the hourly wage of the other five. Bob considered a few options to save his business including changing the menu, remodeling the interior of his restaurants, and changing the prices. “Come on, Bob – think! What can you do that will make more money? You have got to make this happen,” he said out loud. Immediately after he said this, Bob grudgingly acknowledged that he also had to consider throwing in the towel and closing the door on his dream.

Background

While still working for the United States Postal Office, Bob Walker took the first step toward his life-long dream of business ownership. He first launched Salsa Dog on a small scale when he

purchased a portable hot dog cart. His product offering was limited to a few varieties of hot dogs, condiments, drinks, and snacks because of the cart size. On weekends and holidays he set up his portable cart at local events and catered at private parties. Encouraged by his early success, he decided to retire from the Post Office and to expand his business.

The Location

Part of Bob's expansion plan was to find a permanent location for Salsa Dog in his home town of St. Joseph, Missouri. He found a very small building that once had been a gasoline station. The property was on the corner in what was known as an older, historic neighborhood, just slightly south of the city's center. Located nearby were numerous Victorian mansions, a number of historic buildings, and museums. Bob liked this location for Salsa Dog because in addition to the neighborhood customers, it provided possibilities for attracting tourists.

Having found the location, Bob talked with his former wife, who agreed to lend him \$35,000 toward opening his business. He convinced her that he could make his restaurant successful at this location. Bob then successfully negotiated and purchased the old gas station at a reasonable price.

Renovating – Inside and Out

During renovation of the old gas station, Bob realized that while it had sufficient room for the kitchen equipment, the building did not have enough interior space for seating. He decided that it would not pose a problem because he planned on being open eight months per year, April through October. This was the time when most tourists visited the city and local residents would be out and about in the neighborhood.

To provide seating for customers during nice weather, he placed picnic tables and chairs outside of the building. This allowed customers to walk up to the restaurant, place their order, and eat outside. Because the tables and chairs took up part of the area, customer parking was limited to three cars. Most of the customers had to park on the street and walk up to the building for service.

Salsa Dog Opens

Bob could not have been happier when his Salsa Dog, a fast-food restaurant, serving a variety of hot dogs, opened for business in the spring of 2008. The restaurant hours were 11 a.m. to 7 p.m. daily. With Bob and his ex-wife covering shifts, only one employee had to be hired.

To foster additional business, Salsa Dog offered home and business delivery for a \$3 fee with a minimum \$20 order. Bob continued to serve customers at special organizational and community events held either indoors or outdoors with his portable hot dog cart.

In September, 2009, Bob was featured on a new, weekly video blog, The Flip Side of St. Joseph, housed on You Tube. Bob's video, Salsa Dog, The Dog that Bites Back, was viewed several

hundred times and can be accessed at <http://www.youtube.com/watch?v=tDSXH05q1Q0> (Rockett, 2009).

From its opening through 2010, Bob experienced success as Salsa Dog generated a 3% profit. He was turning his dream into a reality.

Salsa Dog's Product Offerings

Salsa Dog was the first locally-owned hot dog restaurant in St. Joseph, Missouri. Its menu consisted of a variety of Nathan's hot dogs, along with a number of different types of condiments, snacks, side dishes, and non-alcoholic drinks. Hot dog choices included Nathan's signature item, Nathan's World Famous Beef, an all-beef hot dog. It also offered a vegetarian hot dog and a kosher hot dog. What ultimately differentiated Salsa Dog from its competition was its broad selection of hot dogs. The different combination of hot dogs and homemade toppings resulted in 20 different hot dog selections (Table 1). Topping choices included homemade chili, nacho cheese, sauerkraut, coleslaw, jalapeno peppers, avocados, sour cream, tomatoes, black olives, and homemade salsa in various degrees of spiciness. The remainder of the menu consisted of side dishes and snacks including: potato chips, nacho chips, home-made coleslaw, kosher pickle spears, cookies, and various pastries. Beverages included soft drinks, coffee, tea, sports drinks, bottled water, and cappuccino.

Table 1

Salsa Dog's Hot Dog Menu Items with Prices and 2011 Sales Revenue

Menu Item	Price	2011 Sales Revenue
Regular Dog	\$1.50	\$ 3,489.00
Nathan Quarter Dog	\$2.65	5,268.20
Chili Dog	\$4.14	14,626.52
Kraut Dog	\$3.40	3,729.80
Salsa Dog	\$3.55	2,580.85
Jalapeno Puppy Dog	\$3.95	4,499.05
Chicago Dog	\$4.95	8,791.20
Polish Dog	\$3.15	2,778.30
Hot Polish Dog	\$3.05	1,881.85
St. Joe Dog	\$4.95	6,855.75
Cincinnati Dog	\$4.25	2,979.25
Slaw Dog	\$3.70	1,431.90
Alamo Dog	\$5.75	5,433.75
Big D Chili Cheese Chips Dog	\$5.60	2,077.60
Live @ 5 Dog	\$4.89	1,892.43
Beefster Dog	\$4.99	1,656.68
K-Jo Taco Dog ^a	\$5.89	329.84
Veggie Dog ^a	\$3.39	193.23
Brats ^a	\$3.99	829.92
Turkey Dog ^a	\$2.29	16.03

Note. ^aMenu items added June 2011. Adapted from Salsa Dog financial statements received from Walker, B. (2011).

Pricing and menu choices were listed on a handout displayed on the top of the serving counter where customers placed their orders. Prices ranged from \$1.50 for a small hot dog without condiments up to \$5.89 for a large hot dog including all condiments.

The Metropolitan Statistical Area Demographics

Economics

The city of St. Joseph lies along the Missouri River, approximately 55 miles north of Kansas City. According to the United States Census Data, the city population was expected to grow 6%, from 86,000 to 91,000 residents, by 2015. Additionally, the city's metropolitan statistical area (MSA) was projected to grow approximately 4%, from the present 128,000 inhabitants to 133,000, by 2015.

Unemployment rates for the city's MSA in 2011 (7.4%) and 2012 (5.9%), were below the U.S. averages of 8.9% and 8.1%, respectively. However, per capita income for St. Joseph and Buchanan County residents, where the city was located, was \$22,349, which was below the U.S. average of \$27,915. According to the Bureau of Economic Analysis, government and manufacturing sectors in the area employed over 10,000 employees. Retail and service sectors employed 8,900 and 14,650 employees, respectively. The service sector included a number of distribution companies and call centers each having several hundred employees. Additionally, because the city was located in the Kansas City Animal Health Corridor, home to the world's largest concentration of animal health and nutrition companies, it consistently maintained and attracted companies operating in those industries.

Overall, the economic stability of the region remained positive for all aspects of the economic environment. In fact, on Forbes' 14th annual list of the best cities for small businesses, St. Joseph was ranked 89th overall ("St. Joseph Named to Forbes," 2012). These rankings were based on 12 economic metrics including job and income growth, business and living costs, and educational attainment. Another positive for the city was that maintaining the county's infrastructure and the various public institutions had always been accepted by the Buchanan County and city of St. Joseph voters. Another example was that two new schools were recently approved by the voters along with a capital improvements tax.

Community

Because of the size of St. Joseph and surrounding area, the city traditionally sponsored a number of public events during the year. These included numerous festivals, parades, celebrations, flea markets, sporting events, and charitable runs. Several of these were large, well-publicized events. For example, in August of each year, the city sponsored Trails West, an outdoor festival that included various well-known musical groups. Food vendors were invited to set up booths along with individuals who sold crafts and art work. Additionally, the Apple Blossom parade and festival were scheduled in May and the South Side Festival was held each fall. Typically, the events were well attended by local and nearby residents.

In addition to these public festivals, multiple businesses and business organizations hosted events with catering opportunities. The Chamber of Commerce sponsored Lunch and Learn presentations, banquets, and business mixers. To take advantage of the city's extensive parkway system, the Chamber also annually hosted a series of parties on the parkway. Each of the five parties was held on a different section of the parkway and local musical groups performed. Local food vendors applied for permits to sell their food. These parties typically attracted 300 to 400 people. Because of the large number of local organizations such as the Lions and Optimist Clubs, many restaurants provided lunch and dinner catering services for their events. Opportunities also existed for catering such as organizational picnics, baseball games, and other types of outdoor events.

Education

Missouri Western State University, located on the east side of the city adjacent to one of the city's main thoroughfares, had a student population of approximately 6,000 students. Seven residence halls provided housing for 22% or 1,336 students. Only one hall, with a capacity of 250 students, was designed as an apartment with full kitchen facilities.

According to Missouri Western's web site, students had opportunities to participate in approximately 100 clubs and organizations. Throughout the fall and spring semesters, these student clubs and organizations sponsored events, meetings, and activities that provided catering opportunities.

Additionally, during the summer months, residential and non-residential camps, for both children and adults, were held at the university. The most publicized of these camps was the Kansas City Chiefs Training Camp held in late August for the last three years. Thousands of visitors came each year and watched practice, met Chiefs players, and purchased food and beverages from the vendors in the camp food court and local restaurants.

Other catering opportunities within the educational sector existed. Approximately 13,000 students were enrolled in St. Joseph's private and public schools. Parent-teacher organizations held fund raising events throughout the year, as did specific interest groups, such as band and football.

An Unforeseen Opportunity

In the fall of 2010, the city of St. Joseph presented Bob and his Salsa Dog restaurant with an unexpected opportunity. City officials approached Bob and offered him the opportunity for another Salsa Dog location. The city had leased space in the newly-built city library building, located next to a major mall, East Hills Shopping Center. The city's Convention and Visitors Bureau occupied the majority of the area, but space was available for a small restaurant operation. Bob immediately thought that this was the big break that Salsa Dog needed to expand and to be more successful. But, before he committed, he had to analyze the advantages and disadvantages of opening a second restaurant in the new location.

Advantages: How About a Dog with that Information or Book?

It was easy for Bob to identify the advantages of expanding Salsa Dog to a second location in the library building. One of the main advantages of the library building was the built-in potential customer base consisting of library patrons, which ranged from 120 to 220 people daily, and Visitor Center guests. As an added bonus for possible Salsa Dog customers, the library provided free movies to patrons on Tuesday nights in one of the two public meeting rooms located downstairs. Bob also knew that the location of the building itself had the potential to attract more customers than the built-in library and Visitor Center guests. For example, shoppers from East Hills Mall and students from Missouri Western State University represented a potentially large target market.

Bob also recognized several other advantages of opening in this location. The space inside the building was attractive and had natural lighting, which resulted in a pleasant atmosphere for customers. The offer from the city included a three-year contract with reasonable rent. The city was to provide the restaurant with space for a small kitchen area behind a customer service counter where customers placed their orders. The contract also called for the city to provide eight tables with 34 chairs for customer use in the dine-in area. The library provided reading materials for customers in the eating area. The building itself was new, had sufficient parking, and was well landscaped.

Although excited about all of the advantages of opening in the library building, Bob exercised caution and set out to identify the disadvantages of the expansion.

Disadvantages: Where is Salsa Dog?

The new library was built on the eastern side of St. Joseph, next to the city's only large, indoor mall. The mall and library, along with many restaurants and other retail businesses, were located in the middle section of the busiest four mile, north to south, city highway. The library building itself was behind the entrance to the mall and was not visible from the main highway, which limited customer accessibility to some extent. Bob was worried about the increased competition from the many, well-known fast-food restaurants in the immediate area. Would customers pass by other fast-food places, park, come into the library building, and place an order at Salsa Dog? If not, what would bring them in?

Further complicating the visibility and competitive issues was the contract stipulation that prevented Salsa Dog from all forms of outdoor advertising on the mall property that surrounding the library. Bob was frustrated about this limitation, but he also recognized that he lacked the capital for advertising.

The location disadvantage also included where Salsa Dog was placed within the building itself. The library building had two entrances. One was the main entrance to the library and the other was the entrance to the Visitors Center. When entering through the main library door, the library was to the right and the Visitors Center was to the left. From this entrance, the Salsa Dog banner was visible on the glass partition between the library and the Tourist Center. However, within the library, Salsa Dog itself was tucked into a corner in the Visitors Center that was not easily seen when people used this main entrance. For library patrons to see and access Salsa Dog, they needed to pass through a glass door. And, added to Bob's frustration was that he would not be

able to have a drive-thru option for customers. A local fast-food restaurant owner told Bob that 65 to 70% of his business came from drive-thru sales.

The other entrance to the Visitors Center was designed for tourists to enter directly from the parking lot on the east side of the building. When library patrons, tourists, and other visitors used this entrance, Salsa Dog was immediately visible on their left. Unfortunately, the majority of people entered the building through the library's main door. Added to Bob's concerns was that a pastry shop previously located in the space closed after one year of operation. He wondered if the closing had to do with the location.

The Decision

After carefully weighing the pros and cons of the offer, Bob accepted the city's offer. He decided this location gave him the opportunity to increase business at his current location and to serve a different target market than in his first location. Bob hoped that the Visitors' Center tourists would be more likely to eat at his historical district location after they saw Salsa Dog in the library building. He was also excited about the opportunity of serving a different demographic market – library patrons from the city's more affluent east side.

Bob was convinced this was a great opportunity for Salsa Dog. He had visions of increasing revenue and franchising the operation in the near future. He went full-speed ahead and signed a three-year contract with the city in the fall of 2010.

Salsa Dog at the Visitors Center

When Salsa Dog opened at the library in September 2010, the operating hours were 11 a.m. through 7 p.m., Monday through Friday, and Saturday from 11 a.m. until 2 p.m. The restaurant was closed on Sunday. Salsa Dog's hours of operation were somewhat constrained by the library's operating hours. Bob soon found that his peak operating time was during the lunch hours, 11 a.m. through 2 p.m. The menu items and prices were the same as his first location with one exception. Bob added cookies and sweet rolls to Salsa Dog's library location menu.

Bob and his ex-wife worked at the library location for a few hours each week. They completed administrative tasks and prepared the hot dog toppings before the part-time employees arrived. At start-up, Bob had four part-time employees scheduled to work during the lunch hours and three after lunch until store closing. Each employee earned \$8.50 per hour.

The Competitive Environment

Salsa Dog's location within the East Hills Library presented some competitive challenges. Customers wanting a quick lunch or dinner had many well-known, fast-food restaurant options available to them near Salsa Dog's library location. However, the competitive environment was limited if consumers were interested in a hot dog for their meal.

Only two fast-food restaurants offered consumers a variety of lunches and dinners with hot dogs as an option – Dairy Queen and Sonic®. Both were located in St. Joseph; however, only Sonic®

had two outlets within one mile of Salsa Dog's library location. Three walk-up style Dairy Queens were located on the western side of the city in older neighborhoods, from north to south over a five mile stretch. However, each Dairy Queen was several miles from the library. Along with ice cream, Dairy Queen had always served small chili dogs at a price of \$2.68.

Sonic® had a traditional, yet varied fast-food menu that had long included corn dogs and foot long hot dogs. However, in 2011, during the "Year of the Hot Dog" as declared by talk-show host Rachel Ray, Sonic® expanded their selection ("In the 'Year of the hot dog,' 2011). They added four new premium beef hot dogs to its menu: a Chicago Hog Dog, a New York Hot Dog, an All-American, and Chili Cheese Coney. All of the selections had a grilled, 100% beef hot dog in a bakery bun; they were differentiated by their toppings. In an online review of Sonic's® new hot dog lineup, Bob read that not all of their toppings were homemade, several appeared to be store bought according to the article (Trinidad, 2011). The review concluded with the comment that the four new hot dogs were tasty and a good value.

When first offered, the hot dogs sold for the introductory price of \$1.99 each. The Chicago Hot Dog was priced at \$2.29 after the introductory price. However, the price of the other three remained at their introductory price of \$1.99. When ordered as a medium-sized combo meal, the Chicago was priced at \$4.99; the other three at \$4.69. Their foot long hot dog was priced at \$3.29 alone and \$5.99 as a combo. Combo meals included a drink and a choice of either French fries or tater tots.

To attract parents with small children, Sonic® offered kids meals; the hot dog kids' meal was priced at \$3.19. Similar to the combo meals, it included the hot dog, choice of potato, and drink along with an age-appropriate toy.

As part of their franchise agreements, the local franchisees of both Sonic® and Dairy Queen had advertising support from their respective franchisors. This support included both financial and creative resources. Through national television ads, many customers became familiar with both brands. Sonic® and Dairy Queen also had a strong, interactive web and social media presence that included Facebook, Twitter, and You Tube. Sonic® was also represented on Pinterest. All were used to promote products, maintain a dialogue with customers, and advertise local and national promotions, such as Sonic's Cruisers® Club and "happy hour" from 2 p.m. to 5 p.m.

In addition to more advertising and promotional resources, the two St. Joseph Sonic® restaurants near Salsa Dog's library location had other advantages. First, they were located on the city's main business thoroughfare, which permitted outdoor advertising. Secondly, although customers were able to park and order food that was delivered to their cars, both Sonic® locations also had drive-thru windows. This was an added convenience for customers who planned to eat elsewhere or were short of time.

Marketing and Promoting Salsa Dog's Library Location

Within the library building itself, Bob promoted Salsa Dog. He had Salsa Dog's hours of operation printed on the two exterior entrance doors of the library building. He also advertised on

the electronic sign in the lobby that highlighted the current activities of both the library and Visitors Center.

He knew, however, that he needed to attract customers other than library patrons and tourists. He first considered direct mail, but ruled it out because the cost was \$3,500 for a 4,000 piece, one-time mailing. He simply was unable to afford it. He then turned to television and newspaper advertising.

Bob experienced limited success with television and newspaper advertising efforts. He placed ads with coupons in the local newspapers and ran television ads to increase awareness of Salsa Dog. He soon realized that television and newspaper advertising were not only very expensive, but they were ineffective as no revenue increases were noted. Given this high cost, his limited financial resources, and lack of increased sales, Bob determined that long-term advertising on these media was not within his budget.

Shortly after Bob opened Salsa Dog at the library, he signed on as a sponsor for a radio show that was streamed online. The radio show, Junk in My Trunk, was broadcasted within a 150 mile radius of Kansas City, Missouri, which included the St. Joseph area. For his sponsorship, the radio station created a three-minute, You Tube video that featured Bob in the library location. Because he already had a You Tube video featuring him at his original location, Bob liked the idea of having one that showcased his new location. The video was viewed by almost 200 people and was found at http://www.youtube.com/watch?v=i7qVD_I9qZI (Junk Shares, 2010).

Bob was not a skilled or frequent Internet user, but he did have a basic web site for Salsa Dog. However, the site was not updated regularly.

The Financial Picture

Bob was the first to acknowledge that he was not the best at keeping track of details. This included keeping and accurately recording financial information. He vowed that if his business survived, he was going to improve in this area. However, he had to make decisions with the information in front of him. He began by reviewing the summarized 2010 and 2011 consolidated profit and loss statement (Table 2) for his two Salsa Dog locations.

Table 2

Salsa Dog Summarized Profit and Loss Statement for Both Locations, 2010 and 2011

	2011	2010
Income		
Food Sales	\$105,652.85	\$109,937.38
Catering	3,524.04	
Miscellaneous Income	689.00 ^a	(284.95)
Total Income	\$109,865.89	\$109,652.43^b
Cost of Goods Sold		
Food Purchases	\$ 40,056.24	\$ 43,771.71
Beverage Purchases	6,026.09	5,334.73
Restaurant Supplies	5,848.74 ^c	8,177.30
Total Cost of Goods Sold	\$ 51,931.07	\$ 57,283.74^d

Gross Profit	\$ 57,934.82	\$ 52,368.69^e
Expenses		
Gross Wages	\$ 65,587.66	\$ 58,173.96
Advertising and Promotion	16,053.04	13,960.97
Bank Service Charges	2,218.00	0
Credit Card Fees	4,796.75	2,557.60
Cash Over/Short	161.65	108.99
Dues and Subscriptions	985.00	452.00
Earned Discounts	(203.20)	(145.22)
Finance Charges	198.66	1,091.17
Insurance Expense	648.22	893.84
Interest Expense	2,069.37	1,097.48
Meetings and Seminars	70.00	0
Office Supplies	941.47	1,098.86
Operating Supplies	1,345.49	1,190.83
Outside Services	1,480.00	1,128.69
Payroll Tax Expenses	7,711.77	6,364.08
Postage and Delivery	20.84	0
Professional Fees	6,750.00	5,096.95
Promotion	182.64	0
Rent Expense	3,608.60	1,178.15
Repairs and Maintenance	1,271.47	1,271.49
Taxes and Licenses	1,489.27	815.89
Telephone Expense	3,465.10	2,497.89
Uniforms	685.53	1,317.75
Utilities	2,313.11	3,637.33
Coding Questions	0	3,925.23
Total Expenses	\$123,850.44	\$107,713.93^f
Net Income	(\$65,915.62)	(\$55,345.24)^g

Note. Adapted from Salsa Dog, Profit and Loss Previous Year Comparison Statement received from Walker, B. (2011).

^aMiscellaneous income included \$219 from delivery and \$470 from a Daily Deal promotion.

^b\$24,443.31 from library location. ^cRestaurant supplies included \$3,107 for carry-out containers

and \$2,741.19 for kitchen supplies. ^d\$16,883.74 from library location. ^e\$7,559.57 from library location.

^f\$25,474.62 from library location. ^g(\$17,915.05) from library location.

Initially, Bob was surprised and somewhat confused that total food sales in 2011 were approximately \$760 less than 2010. And, on top of that, when he compared the bottom lines, he was frustrated that he lost \$10,500 more in 2011 than he did in 2010. Given that he opened the library location in September 2010, it seemed to him that 2011 sales and profits should have been higher than 2010. However, sales at the downtown location had been dropping and Bob reduced its hours of operation. Furthermore, since he opened the library location, Bob had spent his time and energy on getting it up and running. In hopes that his efforts paid off, Bob decided to compare the 2010 and 2011 summarized profit and loss statement for the only the library location (Table 3).

Table 3

Salsa Dog Summarized Profit and Loss Statement for Library Location, 2010 and 2011

	2011	2010 ^a
Income		
Food Sales	\$ 74,300.83	\$24,417.31

Miscellaneous Income	668.00	26.00
Total Income	\$ 74,968.83	\$24,443.31
Cost of Goods Sold		
Food Purchases	25,906.66	9,508.67
Beverage Purchases	4,666.43	4,554.72
Restaurant Supplies	4,054.31	2,820.35
Total Cost of Goods Sold	\$34,627.40	\$16,883.74
Gross Profit	\$40,341.43	\$ 7,559.57
Expenses		
Gross Wages	43,476.28	14,293.49
Advertising and Promotion	8,703.72	3,268.85
Bank Service Charges	1,109.00	0
Credit Card Fees	2,531.00	770.80
Cash Over/Short	59.11	50.76
Dues and Subscriptions	475.00	0
Earned Discounts	(185.00)	0
Finance Charges	104.33	637.39
Insurance Expense	310.98	88.10
Interest Expense	1,296.53	308.86
Meetings and Seminars	35.00	0
Office Supplies	643.83	206.19
Operating Supplies	859.00	366.43
Outside Services	873.00	350.00
Payroll Tax Expense	4,787.79	1,549.76
Postage and Delivery	13.02	0
Professional Fees	3,375.00	924.76
Promotion	86.77	0
Rent Expense	3,608.60	1,136.15
Repairs and Maintenance	360.37	55.42
Taxes and Licenses	464.63	225.00
Telephone Expense	2,288.13	924.43
Uniforms	463.38	318.23
Total Expenses	\$75,739.47	\$25,474.62
Net Income	(\$35,398.04)	(\$17,915.05)

Note. Adapted from Salsa Dog, Profit and Loss Previous Year Comparison Statement received from Walker, B. (2011).

^aLibrary location was operational September through December in 2010.

Bob felt overwhelmed after reviewing all of the financial statements. He needed more time to sort through them and separate the financials for each location before he identified ways to improve the financial health of Salsa Dog. Yet, he also knew that time was running out.

Salsa Dog's Future: Dogged Determination or Not?

Bob had always been known for his dogged determination when it came to accomplishing his goals. This was evident to those who knew him. When Bob had an idea, he jumped right in and made it happen. Because he experienced positive outcomes with this style in the past, he thought that starting and running a business would be no different. After all, he was successful in 2008 when he first opened Salsa Dog in the old gas station building. But, given his current financial situation, he knew he had to change. It was time to buckle down and get information about similar restaurants operations. He hoped it would give him ideas on how to save his Salsa Dog.

Bob learned from a group of local, non-franchise restaurant owners that their food costs were typically 25 to 30% of their revenue. When they added restaurant supplies of 3 to 4% to food costs, their cost of goods sold averaged 28 to 34% of revenue. Furthermore, their labor costs averaged 22 to 24% of revenue and operating expenses, excluding gross wages, ranged from 22 to 34%.

Armed with this information, Bob recognized that Salsa Dog's costs and expenses were high. He had to figure out how to decrease them if he planned to turn things around. And, even with decreased costs, he knew that Salsa Dog needed more customers to come in the door for increased revenues.

Turn Around Strategies: Reducing Costs and Expenses and Increasing Revenues

Bob started his hunt for cost savings in the cost of goods sold section on the 2011 Profit and Loss Statement for both locations (Table 2). He realized that a lack of information by menu item prevented an accurate food cost analysis. But, he did have enough information to analyze the two other entries, beverage purchases and restaurant supplies.

Bob felt he could reduce beverage costs by switching to soda fountain beverages from bottled soda. Of the \$6,026.09 spent in 2011 on beverage purchases, Bob knew that approximately 70% or \$4,258 of it was for bottled soda. Salsa Dog purchased the soda for \$.50 per bottle and resold it for \$1.00. Bob found he could drop the cost to \$.15 by switching to fountain drinks.

Under restaurant supplies, Bob felt he could save money on the cost of Styrofoam carry-out containers purchased from his food supplier. Of the \$5,848.74 spent in 2011 for restaurant supplies, \$3,107 was spent on the containers. A local vendor quoted Bob a price of \$.05 per paper container, much less than the \$.52 that he paid in 2011. (See Table 4 for price comparisons.)

Table 4

Price Comparisons for Beverages and Restaurant Supplies

	2011 Cost per Unit	2012 Projected Cost
Bottled beverages	\$.50	\$.15
Carry-out containers	.52	.05

Encouraged by finding ways to cut his cost of goods sold, Bob began scrutinizing Salsa Dog's other expenses. He knew he could cut his advertising and promotion expenses, particularly given how ineffective the results were from the newspaper and television ads that cost him approximately \$15,000. Bob's friends encouraged him to use inexpensive social media instead. Maybe it was time to do just that, he thought; he needed to increase revenue by getting more customers in the door.

As he dug further into the financial statements, Bob was also surprised at the high cost of his bank service charges, credit card fees, and telephone costs. He reviewed the charges, talked with

the vendors, and found these expenses could be cut in half by taking simple steps such as monitoring the monthly bills and dropping seldom used features. After he poured over the financial statements and found several ideas to cut costs and expenses, Bob was somewhat encouraged about the future of Salsa Dog. But, he wondered if these savings would be enough. Bob sighed deeply and acknowledged to himself that he still needed to increase revenues and find more ways to cut costs for Salsa Dog to survive or even come close to breaking even in the next year.

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