

A Tree Dies and a Pub Suffers

Steven Cox, Queens University of Charlotte
Jim Foster, Queens University of Charlotte
Tim Burson, Queens University of Charlotte
John Repede, Queens University of Charlotte

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Jim Foster scanned the arborist's report for a second time, just to make sure he hadn't missed anything. However, the report was conclusive; the tree had declined to the point that it would not survive another year, and would have to be removed. Foster, the owner of the Selwyn Avenue Pub in Charlotte, NC, had dreaded this day, as this was more than just a tree, it was a signature feature of the Selwyn Pub. The Pub opened for business in 1990, and the tree, a massive willow oak estimated to be more than 100 years old, sat majestically in front of the building. It was a gathering point ("I'll meet you at the big tree"), a conversation point, but was also essential to the outside seating at the Pub. The tree provided shade and cooling during the summer months, and some protection from wind and cool weather at other times of the year. It became part of the fabric of the business, and Foster knew that his regular customers would be dismayed at the news of the tree's removal, Foster felt that he had to come up with a plan to replace the features of the tree that benefitted his outdoor customers or his business would suffer. Bringing in a replacement tree of that size and maturity was not an option; the solution had to be found elsewhere.

Background

The Selwyn Avenue Pub was located in Charlotte's affluent Myers Park neighborhood, not far from uptown or the South Park area, the two most significant commercial centers in Charlotte. However, this favorable location meant that the Pub would see many other competitors over the years in the highly competitive restaurant industry. The Pub had established its niche by offering a pleasant atmosphere along with quality food and drinks that were not outrageously priced, the quintessential "neighborhood bar." A significant portion of the Pub's customer base could be considered "regulars," patrons who had come to the Pub for years, with some frequency.

It was this group that Foster consulted with over the next few weeks regarding the condition of the tree and, as he suspected, there was considerable sadness among his regulars over the loss of the tree. He polled the regulars for thoughts as far as replacing the tree and recalled that "some of their ideas were pretty good." The overwhelming idea was to bring in a replacement tree; while planting another tree was physically possible, it would have to be a much smaller tree that could not replicate the features that the original tree provided for the outside customers. The original tree was in place decades before the Pub and had already established its root base. The Pub's owners had gradually paved over much of the area surrounding the tree to allow for more outdoor seating, so another tree of that size could not survive in that space. Years of sitting under asphalt caused

“soil compaction,” and the existing soil would not support another large tree, even if the asphalt was removed. Any new tree would be merely ceremonial and would not address the outdoor seating issues.

Foster felt quite sure that nothing could replace the atmosphere provided by the tree. Myers Park was known for its willow oaks, with many lining the street as one drove down Selwyn Avenue. The tree typified the neighborhood, and Foster “considered it a differentiating feature” of the Pub. Still, a patio without the tree did provide some possibilities. Once the tree was taken down, that area could be paved over and supply additional outdoor seating, likely two additional tables and chairs. And while the tree provided useful benefits in a variety of weather conditions, it could not provide enough protection when it rained. Foster had considered installing an awning years ago, but the height of the tree would interfere with an awning of any meaningful size. A canopy, which could completely protect outside seating from the rain, could now be considered. After weeks of searching the Internet and various trade magazines, Foster came up with three potential solutions to go forward without the tree.

Replacing the Tree

The first and the least expensive solution, was to outfit the current tables with large commercial umbrellas. The commercial umbrellas and stands would provide limited relief from warmer temperatures and could be purchased for about \$500 each. The umbrellas would not significantly protect patrons from the rain, the positioning of the umbrellas could make it harder for customers to see the televisions, and Foster noted that many competitors in the area already featured similar umbrellas in their outside seating areas. Foster estimated that purchasing ten commercial umbrellas and stands would cost about \$5000 but probably would have a neutral effect on revenue. Paving the area where the tree stood would be an additional cost, but it would have to be done in any of the replacement scenarios.

The second solution was to install a non-retractable awning over the entire outdoor seating area. A significant advantage to the awning is that it could protect outside customers from the rain and warmer weather. In the existing situation with the tree still standing, rainy days caused a significant decrease in Pub business. A modest amount of customers would sit inside, and there would be some take-out food business, but virtually the entire outdoor revenue would be lost to rain. A drawback to the non-retractable awning is that it would block out the sun from the outdoor seating area. Without the sunlight, the outdoor area would be darker and less inviting. Foster said that his customers enjoyed the sunshine, “particularly in the fall and spring, when it wasn’t quite as hot outside.” He also noted that there was a restaurant across the street from the Pub, which featured a smaller sidewalk patio. The patio was on the ground floor of a five-story building, and, as a result, was always shaded by the building. Foster observed that customers would only want to sit outside during the summer, as the patio was too cold in other months due to the constant shade. The cost of the non-retractable awning, including installation, was approximately \$30,000.

The final scenario was a bit more complicated, as it involved the installation of a retractable awning over the outside seating area, which could provide protection or allow sunlight as weather conditions dictated. Foster was not even aware that such awnings existed until he was perusing Google Images one evening and saw one at a restaurant in Miami. The distinct advantage was that

the retractable awning would allow year around outside seating, as the awning could be left open on pleasant, sunny days and closed on days when there was rain or extreme heat. One issue with the retractable awning involved obtaining the necessary building permits from the city of Charlotte. Permanent awnings were common in Charlotte. The retractable awning would be the first of its kind in the Charlotte area, and Foster feared that the permit process could be “slow, expensive and painful.” The retractable awning would also be much more expensive, at approximately \$75,000.

The Decision Information

Foster, a former accountant, kept careful records of gross revenue per day of the week along with the weather that day. Gross revenue for each day of the week beginning Monday grew through Saturday, with a decline on Sunday. Even with several large umbrellas and the tree in place, he estimated from his records that his revenues suffered significant losses whenever it rained at least .25 inches during the hours that he was open. On average the losses were as follows; Mondays-\$250, Tuesdays-\$400, Wednesdays-\$600, Thursdays-\$1200, Fridays-\$1600, Saturdays-\$2900, and Sundays-\$1400 respectively. In a typical year in Charlotte, it rained over .25 inches on 48 days. Foster did not try to measure when it rained during the day or evening nor for how long it rained. He simply used the rainfall information provided by the National Weather Service in his calculations.

Foster was not sure how much he might recoup of the rain losses if he were to install an awning over the patio, he estimated that approximately 30% could be realized. He also noticed that the patio was not as busy on days when the temperature rose over 90 degrees. He knew that the tree did provide some shade, but it was limited. He had several large umbrellas on the patio which provided shade, but not to the extent that an awning would provide. He estimated that his revenue losses on hot days were about 10% of the losses due to rain with only umbrellas. Because of the cooling effect of the rain, it was rare to have temperatures over 90 degrees with rain on the same day. Foster estimated that he could recoup about 25% of the lost revenue due to heat if he could cover the patio. On average there were 98 days in Charlotte where the temperature rose to 90 degrees or more. One final complication was that on warmer fall, winter, and spring days the retractable awning would allow sunshine warmth when the temperature was above 60 degrees. Research showed that there were 86 of these days in the past year. The potential loss due to a fixed awning on a warm October-March day was estimated at 10%.

The Pub had a contribution margin of 68% of revenue. According to the manufacturer, as a safety precaution, either awning should be replaced every five years.

Jim was not sure if there were additional sources of revenue that the awning might attract. He thought that the Pub might appeal to groups, private parties, and events but he was not able to place an estimate on this additional revenue.

Finally, the discount rate for the investment was 8%.

What course of action would you recommend Jim Foster pursue?