

The Student Case Competition is sponsored annually by IMA to provide an opportunity for students to interpret, analyze, evaluate, synthesize, and communicate a solution to a management accounting problem.

KEENANS PUB

By Peter Clarke

“Good puzzle would be [to] cross Dublin without passing a pub”

James Joyce, Ulysses

Malachi Murphy rarely surfs the Internet, but he woke up early one morning in May 2009 and logged on to the Web before breakfast. There was something important he wanted to find and reflect on.

Murphy, though only 25 years old, is the owner and manager of Keenans, an Irish Public House (or pub). The term “pub” originally referred to an establishment that didn’t require a membership to enter and was licensed to serve alcoholic drinks for immediate consumption. While the wealthy had memberships to other establishments and private clubs, pubs were frequented by the hard-working lower classes. But things have changed since the days of James Joyce, when pubs were male-only refuges of serious drinking. In modern times, the pub is the mainstay of Irish social life. No village, town, or city is complete without its pub, where locals and tourists gather to socialize and relax. In Ireland, there are about 10,000 pubs—for a population of some four million people—giving direct employment to about 60,000 people, including the proprietors. Today, Irish pubs are known for their atmosphere and “craic” (loosely translated from Irish as

meaning “light-hearted conversation”). Since the 1980s, Irish pubs have been opened throughout the world. There’s scarcely an international city that doesn’t have its own unique representation of an Irish pub.

Keenans was originally named Keenan’s Pub, but the apostrophe was dropped in error some years ago when the signage was being repainted. Situated in a large sea-side town in the southwest of Ireland, it benefits from an influx of tourists during the summer. The pub occupies a single-story building, with an unused grocery store also owned by the Murphy family next door in a separate but joining building. It’s located in a dominant position at the entrance to the town and is in close proximity to a recently constructed third-level college.

Keenans is a traditional Irish pub, similar in many ways to the 90% of Irish pubs that are family-owned and operated. Therefore, there was little appetite for raising external funds for growth or expansion over the past few years. As a family business, however, it’s expected to provide a comfortable living for its owner and dependants, making the financial expectations for Keenans similar to the other two pubs in the vicinity.

Murphy inherited the pub from his father a year ago upon his graduation from the University of Central Dublin with a Business Studies degree and 3.05 GPA. He wasn't interested in pursuing an accountancy career, though he did well on his accounting papers and was particularly fascinated by the few lectures he attended on strategic performance measurement systems. When his aging father suggested that he take over running the pub, Murphy readily accepted the challenge.

Ever since he was a teenager, Murphy had worked in the pub during his time off from school, even spending his summer holidays from college working there. His favorite phrase was that he had worked in the pub for more “beers” than he cared to remember. While the hours were long, they were also flexible. He enjoyed talking to customers—referred to as “banter”—and loved the occasional traditional music sessions in the evenings. The customer base was loyal, and customer complaints were the exception rather than the rule, though Murphy remembered from his marketing lecturer in college that dissatisfied customers rarely complain directly. Murphy encouraged his employees to be friendly with customers based on a simple rule: Know your customer's name by his second visit and his drink of choice by the third. There were five permanent employees—all close friends of his father and paid above union rates—and additional part-time staff were recruited locally when needed.

The Current Situation

In addition to alcohol, the pub sold tea, coffee, soup, and sandwiches. Murphy's father felt that serving food has its drawbacks. Pubs generally earn higher gross margins on food compared to alcohol, but operating costs automatically increase when food is offered, especially if the menu is complicated or extensive.

The annual turnover of the pub was slightly in excess of €1 million during the most recent year. As with most pubs in Ireland, sales had declined in recent years. Official figures indicate that 2008 was the worst performance for pubs in 25 years, with the volume of bar sales of alcohol declining by 9%. Sales of off-license outlets (establishments that are licensed to sell alcohol for off-site con-

Table 1: Judging Criteria for the 2009 Bar Awards

1. Welcome
2. Customer Service
3. Ambience
4. Staff Training
5. Hygiene
6. Product Knowledge
7. Food Offering (where applicable)
8. Safety/Security
9. Décor
10. Product/Wine Range
11. Entertainment/Music Facilities
12. Outdoor/Smoking Facilities

Source: *Licensing World*, May 2009, www.licensingworld.ie/bar-awards-page.html.

sumption, e.g., a liquor store in the United States) remained relatively positive. Poor overall pub performance was driven mainly by the weak national economic situation, which included rapidly rising unemployment, higher government income levies—needed to deal with Ireland's deteriorating public finances—and the inevitable reduction in consumer leisure spending. This was compounded by the increased level of cross-border purchasing of alcohol in Northern Ireland, spurred on by the adverse Euro/Sterling exchange rate movement as well as the excise and sales tax differential. Unfortunately, pro-

jections suggest that 2009 will be worse for the drinks industry than 2008, with an expected volume decline of about 10%. The two national representative bodies for Irish publicans announced a one-year price freeze in pubs for 2009. Murphy realized that this wouldn't help his gross and operating profit margins, which didn't match the national averages of 55% and 10%, respectively.

If financial circumstances permitted, Keenans spent money on improvements and amenities. Some of this expenditure was spurred by legislation. For example, comprehensive legislation was enacted in Ireland in 2004 that banned smoking in all indoor workplaces, including public houses. Designed to prevent any worker from being subjected to passive smoking, the legislation was the first of its kind in Europe and has now been copied by other countries. The legislation doesn't apply to outdoor facilities, however, so Keenans followed other pubs a few years ago by constructing a heated outdoor facility where smoking patrons can congregate. There's some evidence that the sales of alcohol products in pubs have fallen as a result of this legislation, but food sales have increased, reflecting the general public's attitude toward the pub being regarded as a suitable place to have a meal rather than only socializing around alcohol.

Improving Performance

It was in the context of managing his business that Murphy scanned the Internet that May morning. He wanted to find out the nominees for the 2009 Bar Awards—an annual event presented by *Licensing World* magazine for all licensed premises on the island of Ireland. Although

Table 2: Survey of Licensed Premises in Ireland

Table 2A: Percentage Breakdown of Public Houses by Net Sales

Net Value of Sales	Total
Under €30,000	10.4%
€30,000 – under €60,000	13.4%
€60,000 – under €200,000	29.0%
€200,000 – under €400,000	21.3%
€400,000 – under €650,000	10.5%
€650,000 – under €1million	6.7%
€1 million – under €1.25 million	3.3%
€1.25 million – under €2.5 million	3.2%
€2.5 million – under €4 million	1.4%
€4 million or more	0.8%
	100.0%

Table 2B: Percentage of Net Sales Earned from Alcoholic Beverages

Net Value of Sales	Total
Up to 25%	1.9%
26% – 50%	2.8%
51% – 75%	10.4%
76% – 85%	16.3%
86% – 95%	29.1%
Over 95%	39.5%
	100.0%

Table 2C: Employment in Public Houses

Employment Category	Dublin	Non-Dublin	Ireland
Proprietors	2,029	12,225	14,254
Relatives Assisting	459	5,198	5,657
Employees	14,084	31,130	45,214
Total	16,572	48,553	65,125

Table 2D: Wages and Salaries as a Percentage of Net Sales in Public Houses

Percentage of Sales	Total
Up to 9%	11.9%
10% – 14%	20.9%
15% – 20%	27.9%
21% – 24%	21.6%
Over 25%	17.7%
	100.0%

Table 2E: Expenditure on Refurbishment and Decoration over the Last Five Years: Public Houses, non-Dublin %

Amount of Expenditure on Refurbishment	Total
None	23.2%
Under €1,200	6.1%
€1,200 – under €12,000	22.5%
€12,000 – under €60,000	24.3%
€60,000 – €130,000	9.0%
€130,000 – under €350,000	9.5%
€350,000 – under €650,000	2.3%
€650,000 or more	3.1%
	100.0%

Table 2F: Types of Food Served in Public Houses %

Type of Food	Total
Crisps/Peanuts/Chocolate	94.6%
Sandwiches/Rolls	95.4%
Toasted Sandwiches	93.7%
Salads/Buffets	73.1%
Hot Meals	73.9%
Hot Soup	90.8%
Tea/Coffee	100.0%

Table 2G: Entertainment Provided in Public Houses %

Type of Entertainment	Total
Television/Video	91.9%
Live Show	35.4%
Recorded Music/Juke Box	49.2%
Darts	39.7%
Snooker/Pool	34.5%
Bingo/Prize Games	3.1%

Table 2H: Steps Taken to Encourage/Improve Business in Public Houses %

Activities	Total
More In-house Entertainment	34.0%
Prize Draws	17.9%
Refurbishment	64.2%
Introduction or Improvement of Catering	21.5%
Development of Off-licence Sales	5.2%
Advertising	35.1%
Other	2.7%

Table 2I: Analysis of Customers by Age in Public Houses %

Age	Total
Under 20 years	5.7%
21 – 30 years	25.0%
31 – 50 years	41.3%
Over 50 years	28.0%
	100.0%

Table 2J: Percentage of Customers Accounted for by Tourism

Percentage of Customers	Total
Less than 5%	59.2%
5% – 14%	22.5%
15% – 24%	10.9%
25% – 50%	5.4%
Over 50%	2.0%
	100.0%

Continue for Table 2K on the next page

Table 2: Survey of Licensed Premises in Ireland *continued***Table 2K: Busiest Time of the Day %**

Time of Day	Monday – Thursday	Friday	Saturday	Sunday
Lunchtime (12 p.m. to 2 p.m.)	7.9%	4.3%	3.2%	7.4%
Teatime (5 p.m. to 7 p.m.)	9.9%	7.5%	5.8%	11.2%
Early Evening (7 p.m. to 9 p.m.)	18.6%	15.9%	11.2%	16.8%
Late Evening (9 p.m. to Closing)	60.9%	70.1%	75.5%	58.4%
	100.0%	100.0%	100.0%	100.0%

Source: Anthony Foley, *Survey of Licensed Premises in Ireland 2004: A Report Commissioned by the Drinks Industry Group of Ireland*, Drinks Industry Group of Ireland, Dublin, Ireland, 2005. (Note: The 2008 report will be published in Autumn 2009).

there were 12 different categories, he wasn't surprised that Keenans didn't get nominated. What interested him were the judging criteria, some of which were highly subjective (see Table 1). He knew that if he wanted Keenans to be listed in future years, he would have to closely monitor performance in those areas.

Murphy also knew about a survey of licensed premises in Ireland published by the Drinks Industry Group of Ireland. It provided a wide range of information on the nature of pub activities, the ownership and family involvement of businesses, the extent and nature of employment, the significance of and trends in sales, the scale of costs, the size of establishments, the expenditure on refurbishment, the range of ancillary services, and issues of current concern to premises (see Table 2).

Murphy rarely reviewed the financial summaries prepared by Keenans' auditors, but he realized he would have to start doing so in order to get a comprehensive overview of the business (see Table 3).

The Challenge

It was obvious to Murphy that things couldn't and wouldn't remain the same for Keenans. He believed that right-minded, innovative pubs would always survive and prosper, and he accepted the responsibility that he was now the leader and was expected to provide direction for the business. He was confident that the employees would support his initiatives—especially if rewards for success were offered. There were so many things for him to consider that it was difficult to decide where to start. Perhaps a logical step would be to identify the pub's current situa-

tion and then decide on a future direction for the business. In addition, he would need to highlight some appropriate measures to help drive business performance. He remembered his former lecturer convincingly argue that the bottom line belongs down at the bottom for a reason. Far above it, and of much greater importance, are a number of significant activities whose successful performance is required to generate profit. Murphy remembered a simple diagram linking activities to results based on the proposition that “if we have the right facilities and employees doing the right things, then our customers will be loyal, the community will be happy, and we will generate the financial returns” (see Figure 1).

In simple terms, Murphy was “thirsty for success” and determined to achieve it.

Murphy has hired you as a consultant to advise him on the current situation and potential future developments. You are to prepare a report that addresses the following issues:

1. An analysis of the current situation of the business using the available information.
2. Advice on what Murphy should do in the future in order to achieve greater profitability. Your suggestions should be embedded in your analysis of Issue #1.
3. Within your suggestions of Issue #2, prepare a logical, integrated range of critical success factors and related key performance indicators to assist management and employees to achieve your recommendations.
4. Outline possible difficulties that may be encountered when applying your performance measures and suggest how standards/targets could be set for each of these performance measures and how a reward/incentive system might be implemented.
5. What other issues could you bring to Murphy's attention and make suggestions or recommendations where appropriate? Include here your calculation of the break-even point and your estimate of the overall valuation of the business. **SF**

For full details on the IMA Student Case Competition, contact Jodi Ryan at jryan@imanet.org.

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Table 3: Annual Financial Summaries for Keenans

INCOME SUMMARY FOR YEARS ENDED:		
	31 December 2008	31 December 2007
	€	€
Revenue (alcohol sales)	1,151,099	1,299,763
Revenue (food sales)	73,475	62,453
Total revenue	1,224,574	1,362,216
Cost of sales	(690,001)	708,352
Gross profit	534,573	653,864
Less Expenses:		
Depreciation	(42,000)	(44,000)
Wages and salaries	(350,856)	(340,330)
Audit and accounting fee	(27,497)	(25,000)
Lighting and heating	(57,349)	(54,181)
Other expenses	(22,040)	(20,497)
Total operating expenses	(499,742)	(484,008)
Operating profit	34,831	169,856

SUMMARIZED BALANCE SHEET AT:		
	31 December 2008	31 December 2007
	€	€
Property and equipment (net)	798,000	840,000
Inventories	70,780	80,796
Prepayments and debtors	5,400	6,200
Cash and bank	38,962	25,000
Total assets	913,142	951,996
Owner's equity	810,664	775,833
Trade and other payables	102,478	176,163
Total liabilities and owner's equity	913,142	951,996

CASH FLOW SUMMARIES FOR YEARS ENDED:		
	31 December 2008	31 December 2007
	€	€
Operating cash flow	13,962	74,810
Investing activities	0	(48,000)
Financing activities	0	0
= Overall cash flow for year	13,962	26,810

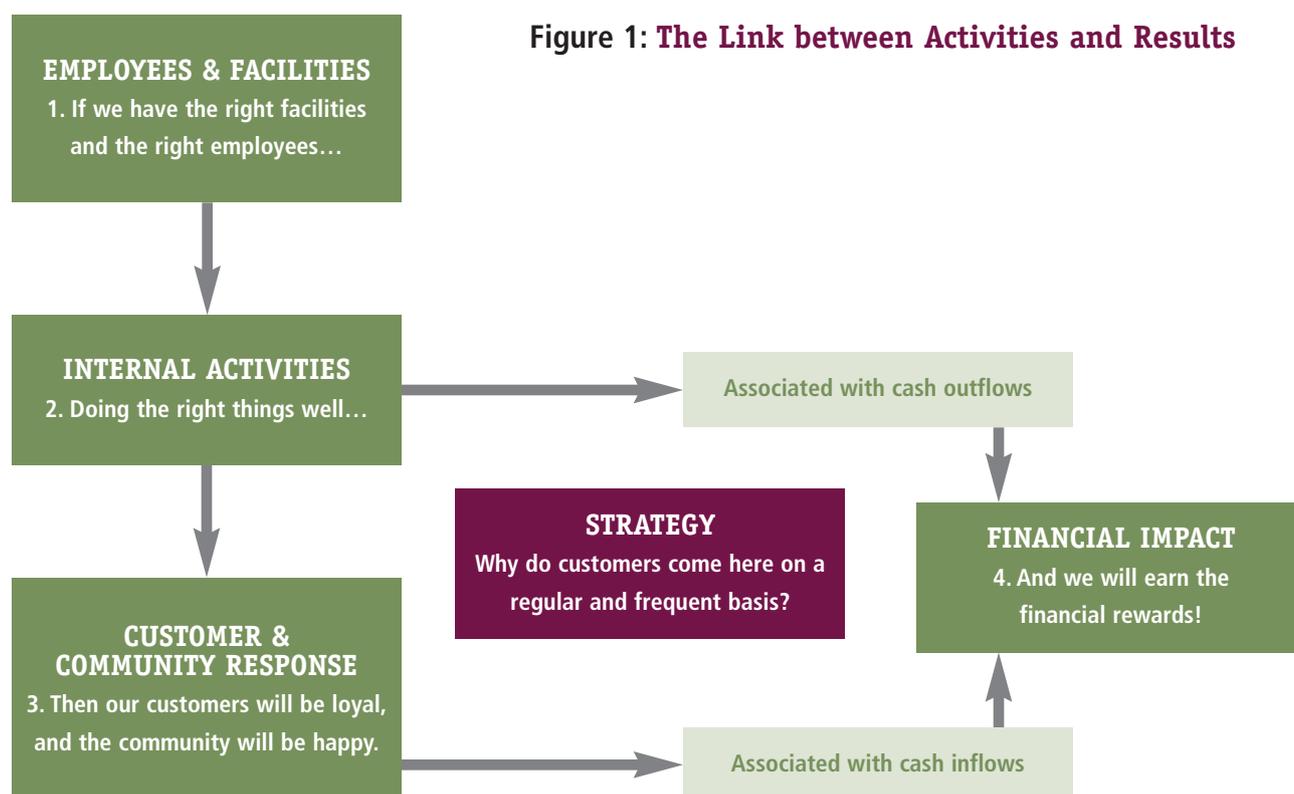


Figure 1: The Link between Activities and Results