RED ROBIN GOURMET BURGERS, INC. - A CASE ANALYSIS

Debora J. Gilliard, Metropolitan State College of Denver, Campus Box 78, PO Box 173362, Denver, CO 80217-3362, 303.556.4682, gilliard@mscd.edu

ABSTRACT

This case analysis provides an overview of the history, operations, and financial condition of Red Robin Gourmet Burgers, Inc. Included is a discussion of the restaurant industry and a brief overview of a few of the restaurants in the casual dining restaurant segment that are considered direct competitors of Red Robin: Applebee's, Brinker International Inc., Cheesecake Factory, Carlson Restaurants Worldwide, and Ruby Tuesday. A teaching note with suggested discussion questions is included.

OVERVIEW

The first Red Robin Gourmet Restaurant opened in 1969 in Seattle, Washington, began franchising in 1979, and went public in 2002. The company is known for its gourmet burgers (which account for 50% of total food sales), its offerings of a wide selection of toppings, the all-you-can-eat Bottomless Steak Fries®, and its Mad Mixology® selection of alcoholic and non-alcoholic drinks. By fiscal year end 2006, the company was operating 347 casual dining restaurants of which 208 are company-owned and 139 are franchisee-owned. The company operates on four principle values: honor, integrity, continually seeking knowledge, and having fun. Red Robin's key objective is to be the most respected restaurant in the world for the way it treats its team members, guests, and shareholders. Red Robin restaurants are located in demographically dense sites and a new store prototype was introduced in 2006. Purchasing is centralized in order to garner greater bargaining power with suppliers and to ensure only high quality food ingredients are used in restaurants. A computerized information system provides daily and weekly financial information, analyzes food and beverage costs, and provides assistance with labor scheduling. The company embarked on a national advertising campaign in 2007 in order to increase brand awareness and guest traffic in restaurants. The company is a good corporate neighbor and supports many local charity organizations and events. Company managers work closely with franchisees by providing help with site selection, building plans, and training. Red Robin has some legal proceedings that it must deal with: lawsuits alleging non-compliance with California labor laws and an SEC investigation into the former chief executive officer's use of chartered jets and entertainment expenses. Financially, the company is a solid performer, with a 27.9% revenue increase in 2006, although current stock price is low. The company incurred more long-term debt in 2006 largely as a result of repurchasing franchised restaurants in California and Washington.

In August 2005, the Board members and managers at Red Robin began an internal investigation into the use of chartered aircraft and travel and entertainment expenses by the then chief executive, Michael Snyder. On February 1, 2006, the company received a notice from the SEC that a formal investigation had been ordered. Michael Snyder resigned his position and was replaced by Dennis Mullen in August 2005. Mr. Mullen continues to charter jets for his private use ($45,988 in 2005) but with the approval and permission of the board. Although the SEC closed its investigation without taking any action, and in June 2007 Mr. Snyder agreed to pay $250,000 and never again serve as an officer or director of a public company, the stock price has dropped about 33% since its high of $57.40 on November 2005 and was trading for about $43 per share in June 2007. Can the management at Red Robin maintain its disciplined growth strategy and a positive public image in light of less than favorable publicity? The casual dining restaurant segment has become more competitive in recent years with restaurant operators vying for customer's discretionary dining dollars. How successful will Red Robin be in the future?

The U.S. restaurant industry has traditionally been segmented into 3 categories of restaurants: fast food, casual dining, and fine dining. Recently, new entrants have created the quick-casual segment. Red Robin falls into the casual dining segment. The restaurant industry has seen 16 consecutive years of growth, and in 2007 total sales are expected to reach $537 billion which reflects a 5.0% growth over 2006 sales. Trends reported by restaurant industry analysts include: new foods, growth in use of organic and locally produced foods, fewer people eating on-the-go types of foods, increased proportion of household funds being spent on restaurant meals, restaurant operators increasing environmental efforts, increased labor costs resulting from an increase in minimum wages, economic growth in the U.S., and more new entrants to the industry. A brief review of 5 major competitors in the casual dining industry is also included – Applebee's, Brinker International Inc., Cheesecake Factory, Carlson Restaurants Worldwide, and Ruby Tuesday.

SUGGESTIONS FOR USING THE CASE

This case is ideally suited for a Strategic Management capstone course but could also be used in a Principles of Management course to introduce students to the strategic analysis concept. Because industry information and a review of major competitors is included, students can complete both an internal company analysis and an industry analysis using analytical tools learned in class. An internal analysis can include a SWOT analysis, financial analysis, discussion of Red Robin's competitive strategy and functional level strategies, and recommendations for future actions can be made. An industry analysis can include identify major economic and market characteristics of the restaurant industry, completion of a Porter's five forces competitive analysis, identification of the driving forces in this industry, completion of a strategic group map, and identification of key success factors for the restaurant industry and/or the casual dining segment. This case can be used for in-class discussion and application of course topics, small group activities, oral presentations, or written assignments.

Teaching Objectives and Suggested Assignment Questions

Teaching Objectives:

1. Apply industry analysis tools such as macro-environment driving forces, Porter's five forces competitive analysis model, a strategic group map, and identification of key success factors.
2. Evaluate the company internal operations through a SWOT analysis and financial analysis.
3. Evaluate the company's competitive strategy.
4. Suggested Assignment Questions:
5. What are the market characteristics and economic factors of the restaurant industry?
6. What are the macro-environment or driving forces in the restaurant industry?
7. Complete an industry analysis using the Porter's Five Forces competitive model. Is this an attractive industry? Why or why not?
8. Prepare a strategic group map of the restaurant industry or the casual dining segment of the restaurant industry. What information is gained about competitors? What might be some of the key success factors for this industry?
9. Prepare a SWOT analysis for Red Robin Gourmet Burgers. What information can be gained about the internal operations of the company?
10. What is your assessment of the financial condition of Red Robin?
11. What competitive strategy is Red Robin implementing? How is this being accomplished?
12. Do the goals identified by Red Robin managers make sense? Can they be achieved? Why or why not? What recommendations would you make to the managers of Red Robin?

References available upon request