Making the Case for IT Investment
How Technology Can Help Operators Increase Their Bottom Line

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Agenda

- Where have we been
- Where are we going
- What’s my competition doing
- Are there investments that actually provide a reasonable return
- What about opportunity costs
- Building “Buy In”
Morton’s Story

- World’s largest Owner-Operator of upscale steakhouses
- Premier Brand, well-established 30 year history
- High quality cuisine. Consistent service and experience
- Focus on high-end consumer, business traveler and special occasion users. (Apx. 80% expense report)
- Award-winning reputation
- Strong restaurant economics and excellent cost controls
- Significant domestic and international growth opportunities
- Highly experienced management team
Global Recession...Two Years Ago...

- Lehman Brothers
- Business travel and tourism
- Airline travel and Hotel occupancy “rev par”
- Meeting cancellations
- Dining frequency
- Dining trade-downs
  - (splits, less expensive wines, etc.)
- Guests and consumers cautious
- Sales fell off
High End Restaurant and Retail Comps

- Morton’s comps ~ (25%)
- Other high end steakhouses ~ (22%)
- Tiffany & Co. ~ (30%)
- Neiman Marcus ~ (24%)
- Saks Fifth Avenue ~ (21%)
What did we do?

- Preserved capital
- Cut costs, labor, etc…
- Stop signing new leases and remolds
- Reviewed Cash Outflows
  - Capex; Interest; Taxes

- DIDN’T PANIC!!
Preserve Capital

- Stopped signing new leases and remodels
  - Shifted from growth/development to hard stop
  - Utilized multiple creative solutions
    - Delayed and deferred
    - Terminated leases/obtained loan
- Slowed/Cancelled other Capex
- Decreased wine inventories $1.1 MM (16%)
- Cut Overhead Costs/Staff
- Lowered Operating Costs/Rents
- Closed Restaurants
Where are we going?

- Recession ended June 2009
- Moderate growth 1H11
- Global Slowdown/European Bank Bailouts
- Continued high (9.1%) unemployment
- QE3 and new stimulus
- Washington partisan gridlock
- Difficult (for all businesses) to commit to capital investment with so much uncertainty
Restaurants: Pricing-In A Recession That Does Not Exist, And Should Not Exist

This '#1 leading-indicator' sector shows little signs of recession

Given its vast size (largest private-sector employer) and its discretionary nature, the US restaurant business has always been a great leading-indicator of economic downturns. Industry wide comps have fallen -200bp to -300bp across all categories, on average, over one-full-year prior to the start of the last two recessions. With Jul 11 – Aug 11 industry wide comps remaining at its 2011-YTD run-rate of +2%E, and with checks suggesting a strong start to Sept 11 industry comps, we see little indications of a pending US recession.

Paul Westra, Cowen and Company 09/15/11
What is my competition doing?

- Building new (better looking) restaurants
- Larger chains investing in technology
  - Gain Efficiencies
  - Decrease/Leverage Labor Costs
- Remodeling restaurants
  - Faster Pace
  - More elaborate
- Mergers and Acquisitions on the rise
Can IT investments actually provide a reasonable return?

- How do I decide where to invest my funds?
- What should my ‘hurdle rate’ be?
- My systems work and my managers understand them
- I’m so far behind the times, I just got a fax machine last year!
- Many operators deferred cap ex during recession and have missed significant innovations
What’s my role?

• You can’t just be a CFO (Marketing VP, CEO, General Counsel)
  • Need to think and act on many levels
    • 5,000 person marketing department
    • New fiscal restraints
    • Can’t cut your way to profitability
    • I made calls asking for business
      • NYSE
      • KPMG
      • Aon
      • Illinois CPA Society
Which IT Investments provide the best returns

• I like tangible, quick ROIs
  • Typically replace older more costly systems
• Don’t let the vendor prepare the ROI, unless you vet the support
• Some investments are not discretionary
  • Compliance
  • Sunset
  • Broken/Costly
• Low cost projects - “Just Do It!”
• Don’t over analyze the decision
  • Trust your instincts (not sales hype)
  • You’re capable of preparing a simple analysis
Technology investments that can provide a return

Labor and Timekeeping Systems
• Reduce Overtime
• Labor scheduling efficiency versus forecasted sales
• Compliance
• Employee Communications via text and email

Food Costing Systems
• Reduce/eliminate food and beverage waste
• Better prep forecasting based on forecasted sales
• Accountability of food/drink preparation

Preparation
• Kitchen display (next gen) and chit routing reduces times/issues with ordering
• Reduced noise and breakdowns due to heat, etc
Technology investments that can provide a return

Point of Sales systems
- Help control server checkout and produce audit logs of financial transactions that have been modified by servers/managers
- Menu Mix – which items are your ‘plow horses’
- Provide better front end sales forecasting and back end reporting that can be used to better manage the business

Floor/reservation management
- Controls/manages seating overload to specific servers/areas and can provide table turn statistics
- Open Table

Security/Facility
- Automated systems can control lighting/temperature and music to create the right ambiance for the guest
- Aloha Restaurant Guard…audit controls/fraud detection
What about Opportunity Costs?

- Capital is short
- Credit is difficult or non-existent
- Technology versus operational investments
  - Equipment
  - Maintenance Cap Ex
- Weigh benefits (returns) of tech investment versus new restaurant or remodel
- Some times you can’t wait….
Building Buy In - Spending

- Strategies that help marketing, IT, ops, and other executives win project support from their financial gatekeepers
- Get out of the cap ex bunker – you have to stay top of mind
  - Be Frugal
  - Everything is negotiable
- Allow sufficient time (decisions take longer today)
- ROI – (not new but more important than ever)
- Leverage Relationships
- Think Start-up (shoe string)
Key Takeaways

• Get out of the cap ex bunker
• Investments may have been deferred too long
• Lost operating efficiencies
• Innovation
• Use your instincts
• Everything is negotiable – just ask
• Analyze but don’t obsess on opportunity costs
• Be creative in difficult situations
Questions?
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