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The Bread Shop

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1. The Bread Shop (A)

Mary Thule started the original bread shop bakery 15 years ago. Business has been good, and she has expanded into new locations. The Bread Shop now has four neighborhood bakeries in the northern suburbs of Minneapolis, St. Paul. Two stores are in small neighborhood shopping areas. One is next to a popular coffee shop near a very busy intersection and a heavily used gas station. The newest store is near a less heavily used intersection a few miles farther out from the city.[1]

Each store sells a variety of breads, rolls, and sweet rolls. The mix of these products varies by season and by location.

When she started, Thule was the baker, sales clerk, bookkeeper, ingredients buyer, personnel manager, and on many days, dishwasher and custodian. Now she has a manager for each store so she can spend her time on management issues for all four stores. Thule chooses the mixture of products for each store, chooses the recipes, and buys the ingredients. She also does the hiring of all employees and tries to settle disputes between store managers and employees. The store managers are in charge of the daily operations in baking and selling.

Each store is operating well, so Thule is considering adding a fifth store. However, she thinks this would require some changes in how the company operates. She realizes that five stores (and maybe even four stores) are too many for her to keep all her current responsibilities and still maintain or improve current profitability and productivity levels. She also realizes the amount of time four stores demand and wants to achieve a better balance between work and personal life. So she is also considering moving some decision-making responsibilities over to the store managers and redesigning their salary structure to reflect the added responsibility.

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Currently, the store managers' salaries are set at individual annual meetings with Thule. At these meetings, they discuss the store's performance in terms of sales, profits, various efficiency measures, employee turnover, and customer satisfaction. (Customer satisfaction is measured by customer comments, but there is no formal survey of customers.)

Thule has always tried to set the managers' salaries according to store performance, but there has not been a predefined set of rules to measure performance or to compare the different measures of performance. The emphasis changes every year, she realizes, so Thule wonders if she is getting the results she wants. She has discussed this with each of the four managers, and they have agreed to the basic idea of splitting their salaries into a base salary and a variable amount which will depend on their store's performance. But they also want to help set the rules on performance evaluation, to know these rules at the beginning of the year, and to be able to expect a higher income due to increased responsibilities.

In the current annual review process, Thule uses a standard profit and loss (P&L) statement. Sales are listed in three categories: bread, rolls, and sweet rolls. Expenses are listed as: flour, other ingredients, packaging, salaries, hourly wages, utilities, building rent, equipment repair and maintenance, advertising, office supplies and postage, and miscellaneous. A proxy for the number of visitors to the stores is available from a counter installed on the front door. The square footage of each store is also available—both sales area and kitchen area.

As might be expected, the four store managers have different ideas of how to measure performance and thus be rewarded. Two managers, who have high-traffic stores, are ready and eager to move to profitsharing as a large percentage, provided they receive a lot of freedom in choosing local products and procedures. A third manager has always done well with efficiency—both physical and financial measures. She wants performance measures more in those terms. She also is more conservative and wants a higher base salary. The fourth and newest manager runs the newest and smallest store. He wants to be rewarded on growth.

The end of the year is next month, and Thule would like to have the new organization set for the new year. She thinks she should have the same pay rules for all four managers and any future manager. But her four managers cannot agree. The closeness of the end of the year makes her want to develop a policy soon. She likes efficiency and sales volume, but she also likes profitability. As she starts to write the new salary rules, she realizes she first has to choose her main goal as the owner. Then she has to decide how to measure progress towards that goal and how to measure and reward the store manager's achievements in helping her achieve that goal.

2. The Bread Shop (B)

"I don't like it! I hate it!" Margaret Rubini glared at Mary Thule and, with even more anger in her voice, continued. "My salary is lower now than it was under the old system. You said this would allow me to work harder and make more money". Rubini's fist again hit the table between them, and she yelled, "I am working harder and making less! You lied to me! If you don't raise my salary, I am quitting!"[2]

Mary Thule sat quietly, thinking of what she should say. Thoughts raced through her head. She was taken back by the ferocity of her manager's hatred of the new salary system, a new system based on store profits. Where had she gone wrong? Starting her first store years ago had been so much fun. Now, as she was trying to start a fifth store, the fun seemed far away. Six months ago, she thought the new salary system would improve both manager morale and company profits. After less than 5 months on the new system, Rubini had come to her home early one evening to express her anger.

Thule was the founder, sole owner, and overall manager of The Bread Shop, a small company with four neighborhood bakeries in the northern suburbs of Minneapolis, St. Paul. After considerable thought and discussion with her managers, she had announced the new system to her four store managers 6 months ago and promised she would review their salaries and the calculation rules after 6 months on the new system. The old system provided a fixed annual salary to each manager which was set at an annual review with Thule. Under the new system, managers' salaries included a base salary plus a percentage of their store's earnings before interest and taxes (EBIT). She had set the base salary at 50% of the average of all four managers' salaries. Each manager had agreed to the new plan.

She had thought that equalizing the base salaries would provide an equal cushion and that a percentage of EBIT would provide enough incentive for each to improve the operation of their own store. She had chosen EBIT because it was closest to her own objectives, was an easily calculated and visible number, was something each manager could control to a fair degree, and would not hurt the managers for differences in her financing decisions between stores.

Thule had shown each manager how their salaries would be better under the new system if the profits were to grow at their store. She had also given them control over the mix of products sold in their stores, the freedom to add new products, the ability to order ingredients separately, and the hire and fire responsibilities for the employees in their stores. Thule had made sure that each manager knew they would benefit if their store did well and that they would not be hurt if the other stores stumbled.

Chuck Anderson, the newest of the four managers, and Rubini had at first liked the fact that their base salaries were higher than 50% of their "old" salary. The other two managers had grumbled at first but also had been the most eager of the four to have more freedom and control in their own stores.

Thule had seen changes in the salaries in the first few month. The top two managers had accepted the challenge, so to speak, and seemed to thrive in their new found freedom. Their salaries improved rapidly. They had been the better managers before, and Thule had tried to reward them in their annual salary adjustments. Under the new system, they apparently realized what was required to raise EBIT in their stores and were making decisions to improve it. Customer comments were still favorable in these stores, but she had heard a few more negative comments in Rubini's and Anderson's stores.

The trouble started with Rubini once she had calculated backwards and realized that she had been making less than the other two seasoned managers under the old system. Anderson had made less than the other three before the new plan. Anderson had expected and accepted that difference, but Rubini thought her salary should be closer to the other two managers.

Rubini had always been a very good manager of the bakery from the viewpoint of an efficient kitchen. Her operating measures were great, but her profit rates were not as good as the other two experienced managers. Rubini seem to lack some of the retail knack and entrepreneurial zeal that the top managers had, so Thule had not rewarded her as well at annual salary review time as she had the other top two managers. Since these review meetings were private between Thule and each manager, Rubini had not realized that the other two were making much more than she was even though all three women had worked for Thule for about the same number of years.

These thoughts had raced through her mind and Thule suddenly realized that she needed to say something quick. "Well, Margaret, I thank you for coming over to talk. I have always appreciated your abilities and would not want to lose you without a chance to rectify the problem. I am glad you wanted to talk first rather than just leave. Thank you. That reminds me again of how lucky I am to have you as an employee".

"I have seen the salaries each month and realized that yours was slipping lower. As we discussed 6 months ago before we started this new salary system, I don't know if I have the right procedures. I said we'd look at them after 6 months on the new systems. But, I will start a review of it tonight. That's earlier than I said but you have pointed out the need. If there is a problem, I will make it right and go back to the beginning of the year to do so. That's my promise, and after all these years together, you know I keep a promise".

"Well", said a much more subdued Rubini; her anger had subsided just by letting it out. "I was just getting so mad, I had to do something. I too have liked working for you and don't want to quit. But if this new system means I have to work harder just to keep my old salary, I will look for another job".

After some more discussion and eventually small talk, Margaret Rubini left Thule's home with a small smile on her face. Mary Thule, although she had a smile forced on her face, had a troubled mind as only a manager and owner can know. She was not lying when she said she would start the review tonight. The problem now had a life of its own and, Thule knew, would keep her awake most of the night.

Rubini was not the only manager who had complained to her tonight. Chuck Anderson, her newest manager, had called during dinner. He was complaining that he was being penalized for the location of his store. Even though his sales volume in the first 4 months had increased from last year, his salary had been lower! (Thule knew both these facts were true.) Anderson had argued that since he had the newest and smallest volume store, he should be rewarded for growth in sales and not just for EBIT.

Mary Thule stood in the warm May night air and watched Margaret Rubini's car disappear around the corner. Hundreds of thoughts and questions were roiling her mind. With no point in trying to sleep, she decided to look back at her 6-month-old calculations to see if she had missed something or had made a wrong calculation. She also had the first 4 months of this year to look at. Apparently she needed to make some changes, but what—salary calculations, personnel, what? She knew she had to respond soon. Two of her managers were unhappy and that meant that her potential for a successful year and successful addition of a fifth store was decreasing rapidly.

Notes

1. This case was prepared from the author's experiences with two multilocation bakery businesses in different cities. It is intended to be the basis for class discussion rather than an illustration of effective or ineffective handling of a management situation. The Bread Shop is a fictitious company.
2. This case was prepared from library materials and the author's experiences as the basis for class discussion rather than to illustrate effective or ineffective handling of a management situation. The Bread Shop is a fictitious company.