Keio Business School

Sushi Zushi Inc. 2010 (B)

A few days after the first executive team meeting on November 1, 2010, Al received the sales report for October. He was very pleased. With the addition of Rita and the strengthening of the accounting department, Al had never received a monthly report faster.

But looking into the figures in more detail, Al could feel the color leave his face. The company was in the red in October. Up until now, the results had been so good. Al recalled his feelings on seeing the report:

> "I felt like I had ruined a very profitable company. It seemed like the same thing that had happened in Mexico when I was younger."

Actually, for a while Al had felt that something was wrong. From the founding of the company, Al had used a cash flow management. But from around March 2010, he had had the feeling that something had changed and something was wrong. That was when he had hired a number of new executives, and he thought casually that this might be the reason. For the past three years, the company's results had improved steadily despite the fact that Al had been in recharge mode and hadn't been deeply committed to its management. But looking at the October results, and digging deeper into the details, he could see that the company's performance had been going downhill since the summer.

Al ordered his executive team to quickly come up with proposals to resolve the crisis. The team submitted a report after the middle of November which stated that Al should not have purchased his "Cadillac" (an analogy used to describe the high-salaried executives hired and the fact that the rising

Katsuhiko Shimizu (Professor, Graduate School of Business Administration, Keio University) prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

personnel costs had made the company unprofitable).

Al was shocked. This is how he reacted:

> "I don't think it was wrong to buy a "Cadillac." The problem is that the Cadillac that I purchased doesn't operate any better than a shabby old truck. All of you like to say that the management is weak and that there are lots of problems, but the people who have been around the company from the start have contributed far more profits.
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> "Show me what you can do. Aim for a profit ratio of 10% in December. Cut sales costs, personnel expenses, and other costs to less than 30% of sales each. This is our 3-3-3 plan. Get to it."

This meeting became an opportunity for the executive team to come together and restore good performance together as a group. After more analysis, the following two major problems were found.

1. Rising Personnel Costs

This wasn't only the result of hiring an executive team with high salaries. The executive team had made a number of proposals to shore up Sushi Zushi's structure, and these measures had not cut costs, but instead led to higher costs at the restaurants. Specifically, some managers who had been paid by the hour were converted to salaried employees to make it easier to attract strong manager talent. Also, they had decided to properly calculate overtime pay for kitchen staff and pay them overtime wages. These had been natural management policies, but it had made it more difficult for restaurant managers and supervisors, and even Operations Vice-president Teri Harrison, to control costs because they weren't used to these systems.

2. Lax Management of Consumable Expenses

It was learned that there was no cost control over the consumables used at restaurants. The issue was discovered after Teri found that necessary items ordered from the warehouse were not received by the restaurants.

The executive team learned, however, that this was not a problem at the warehouse, but rather was caused by the free use of consumables at the restaurants. In Teri's training program for restaurant staff, there was no item relating to the use of consumables. Additionally, although it was natural for companies to select suppliers for each consumable and renegotiate bulk contracts annually, this measure was not consistently implemented. Instead, employees were often purchasing small amounts of needed supplies at local retailers.

Al explained his feelings on this problem:

> "It was just like our legal advisor warned: Be careful of employees asking for more and more. I tried to do that, but overlooked this problem. To borrow the words of the legal advisor, this was a "creeping problem" that snuck up without me noticing it.
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> "In the end, I let my guard down. In Mexico, when the chain went under, I felt that we could have avoided the failure if we had only hired managers with experience. This time, I hired the executive team and put all my trust in them. I was not personally committed enough. That's why the Ziquid discussions came up. I planned to do Ziquid, but rebuilding Sushi Zushi was the first priority, so I ended up putting Ziquid off for a while.
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> "I had also felt that I didn't have the kind of abilities the experienced executive team members had. I underestimated myself a bit. They did have a lot of experience. But they didn't know Sushi Zushi as well and the fact was that I was personally more involved. I realized it wasn't enough just to make an executive team. I should have been their leader, trained them to develop business minds and brought them along."

Under Al's leadership, the company nearly achieved the 3-3-3 plan for December. The thorough implementation of the 3-3-3 plan was the result of Al's experience with Britannica. Al was beginning to feel good about the executive team. He and the executive team came through December with a shared feeling that a sense of urgency had helped them see things through to the end, and that without it, they would not have been able to make a breakthrough. There were still many roadblocks to the company's future growth, but through the recent experiences, Al felt that he and each of the executive team members had moved up to the next level.