

**TEACHING NOTE:  
SUGGESTIONS FOR USING  
THE SKYLINE CHILI CASE**

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The Skyline Chili case can be used in a variety of ways in conjunction with different areas of small business management. It fits particularly well in small business growth management and strategy course. The case content spotlights the past and present of Skyline Chili as well as the role of top management. Because Skyline Chili is competing in a fragmented industry, the case also fits into a discussion of formulating and implementing "sustained, profitable growth" strategy in fragmented industries. There is an abundance of information about the restaurant industry and Skyline Chili's competitors. Therefore, Skyline Chili is an excellent case for classroom discussion or for individual or group written assignment.

A video (1 1/2 hour) is available with this case (Mr. Kevin McDonnell's presentation in small business growth management and strategy course). Also, annual report is available from CompactDisclosure and CompuStat.

**TEACHING OUTLINE AND ANALYSIS**

1. **What impresses you about this company? Is it well-managed? Why or why not?**

**Using Skyline Chili's financial data, analyze internal strengths and weaknesses.**

This is a good opening question because you get immediate feel for what students think about Skyline Chili, Inc. and how it is managed. The following items are strong candidates for being included:

- \* Skyline Chili operates successfully under a new CEO, Mr. Kevin McDonnell. The challenge of guiding Skyline into a thriving regional restaurant chain while increasing shareholder value has only begun for him. It is essentially the same challenge his predecessors were unable to overcome after Skyline Chili went public to finance an aggressive regional expansion. Mr. McDonnell describes his task as an "intriguing opportunity."
- \* Skyline Chili has managed to grow by utilizing the principles of small-scale organization.

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\* Skyline's track record of growth. As of 1995, there are 83 Skyline restaurants. Though Mr. McDonnell might like to add new stores more quickly, he is most concerned with improving the profitability of the existing ones outside Cincinnati.

Skyline Chili has some internal weaknesses. For example, 3 Lambrinides family members control 74.7% of ownership. Also, compensation for them (as officers and directors) and price-earnings ratio (19 in 1994) are too high (in comparison to ROE). Skyline Chili's ROE (Return on Equity) was poor in comparison to other competitors: 4.7% in 1992, 5.8% in 1993, 6.7% in 1994 (industry average: 10%). However, in 1995, Skyline Chili under Mr. Kevin McDonnell's leadership reported 11%.

**2. How successful was Skyline Chili in defining the business and crafting a strategy to achieve performance objectives?**

Skyline Chili defined the business narrowly as a company that produces the secret-recipe chili for its restaurants (company-owned and franchised) and several frozen chili products for local grocery stores. However, Skyline Chili did not pay much attention to crafting a strategy. It emerged from a process of trial and error. Today, Mr. McDonnell pays more attention to crafting and implementing a strategy with a strong growth orientation.

**3. Can Skyline Chili executives stand the tests of time and growth?**

Skyline Chili's financial management is very conservative. The company has no regular Wall Street analyst following because its stock is thinly traded. Limited attention is given to improving shareholder value and sustaining it. Given its projected growth, however, Skyline Chili must be a company that generates a large amount of cash to pay for the necessary expansion.

Growing earnings is the foundation for increasing shareholder value. For Skyline, that means the restaurant chain must expand outside Cincinnati because it has all but saturated this market. Another critical component to shareholder value is liquidity. With 75 percent of Skyline Chili's 3.4 million shares tied up in the hands of officers and directors, there's not much of a public float. With so few shares available, it's difficult to achieve significant price appreciation. It also limits Wall Street's interest because investors usually don't invest in such tiny companies. Nevertheless, Skyline Chili has an asset: Mr. Kevin McDonnell, his leadership and strategy.

**4. What issues does Skyline Chili face in the years ahead? What would you recommend Skyline Chili do to successfully confront these issues?**

Students are prone to come up with shallow answers to this question. You may have to probe and push a little to draw out the rather substantive issues Skyline Chili faces:

\* Deciding how fast to grow -- how many new restaurants (company-owned and franchised) to open each year and how rapidly to enter new geographic

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areas. Rapid expansion runs the risk of straining the company's ability to implement its strategy effectively in all of its stores. Skyline Chili should avoid its previous mistakes in the late 1980s. For example, there were only one or two Skyline Chili restaurants in the new city. The stores lacked a loyal customer base and with so few locations in a city, promotion was very difficult. Skyline Chili had to pull out of the troubled markets such as Atlanta, Pittsburgh, and Washington, D.C. Therefore, Skyline Chili needs to pursue "managed growth."

\* What management actions to take to ensure that each restaurant delivers attentive and personalized customer service? It will not be easy to sustain the current strategy of customer service as the company's size and geographic scope gets bigger and bigger. Special efforts need to be made to employee training and development. Skyline Chili's strategy cannot succeed without a cadre of dedicated, motivated, and knowledgeable store employees. Therefore, Skyline Chili should focus on: high standards in employee selection, extensive efforts to recruit service-oriented people to staff restaurants, intensive training of all employees, and communication between management and employees.

\* Can Skyline Chili continue to finance growth without incurring financial strains?

**In sum, the core issue is how to sustain the growth strategy and continue to implement it with excellence. At the end of case discussion, students can try to answer the following question: Should I consider buying stock in Skyline Chili?**