Achieving Its Just Desserts:
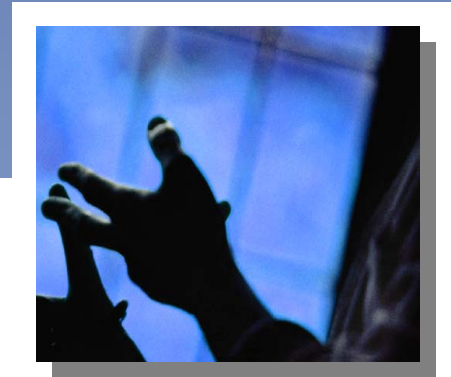## *Innovative planning helps The Cheesecake Factory grow its business*

A VentanaProfile in Success

VENTANA RESEARCH

Aligning Business and IT To Improve Performance

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In the course of our market research and consulting, Ventana Research occasionally encounters end-user organizations that have made breakthroughs in performance management. We solicit their participation in telling members of our research community about these efforts. With their approval, we create profiles that describe real-world examples of innovation in action. We hope that professionals reading them will find not only situations relevant to their own but also new ways of thinking about how to address the challenges they face in striving to improve their organization's performance.

Achieving Its Just Desserts

Many successful businesses rely on continuing growth, but the recent rise of The Cheesecake Factory is remarkable. Begun in the 1940s as a bakery operating out of the home of its founders, the business moved to California in 1972. The founders' son and the company's current chairman and CEO joined his parents' business in 1975 and opened its first restaurant in Beverly Hills in 1978 as a way to showcase his mother's desserts. The Cheesecake Factory added new restaurants slowly until the mid-1990s when growth accelerated sharply, and the chain grew from 14 restaurants in the U.S. in 1995 to more than 150 today. The company has doubled in size since 2003, and in 2006 and 2007 it opened 21 new restaurants each year.

When a company experiences such dramatic growth, it is likely to discover that informal business processes no longer meet the demands from management to understand and sharpen performance, improve accountability and be more rigorous about regulatory compliance. Tasks that once could be handled casually now must be structured in order to keep up with the pace of business.

Such was the case with The Cheesecake Factory's annual planning and budgeting process. Financial analysts and operations managers used Microsoft Excel spreadsheets to store plan data and the e-mail system to circulate them, and at the end of the process Finance consolidated all the worksheets. As is typical in such cases, the organization experienced problems in controlling the proliferation of versions of spreadsheets, ensuring accuracy of data and formulas and tracking down the sources of changes and errors. It was difficult for those involved to get the right information in a timely manner, and Finance had to worry about mistakes in the final documents. "We needed a planning tool that was easy for our end users to access and secure enough for the office of finance to control all versions," says Jason Hicks, manager of financial planning and analysis.

Not only was the process cumbersome, it took too long. Developing the annual budget began with people manually inputting data into blank Excel templates. Data entry, review and consolidation of the spreadsheets took at least a

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week and required effort from many people, according to Hicks. And worse, this time and manpower wasn't spent productively: The need to ensure that the numbers were input correctly distracted managers from thinking about the meaning of the data.

Change Needed

Managers at all levels knew the system needed updating. A strategic planning initiative was launched in 2002 with the approval of corporate and operational executives, led by Finance and IT. Its goals were to develop a system that would allow employees to spend less time on budgeting and to use current rather than historical data to forecast business conditions and resource needs.

Among the tasks facing the team charged with carrying out the project was to choose a dedicated planning tool to replace the spreadsheets. After evaluating several that could provide a full range of more reliable data, the team chose planning software from Adaytum, a privately held company acquired by Cognos the following year. Now integrated into Cognos Planning as Cognos Contributor, the tool enables nontechnical users to access information in templates formatted for their specific role in the planning and budgeting process. Since then, The Cheesecake Factory has fully adopted Cognos 8 Planning for its reporting, analysis and forecasting.

The new Web-based process enables all users to get the information they use from the same source via a portal. And management can be sure that the information is both secure and reliable. "Centralization of data is key" to the success of the new process, Hicks says.

AT A GLANCE

The Cheesecake Factory, Inc.
Founded: 1949 as a bakery; first restaurant opened 1978
Headquarters: Calabasas Hills, California
Employees: 32,000

Project:

The Cheesecake Factory needed to streamline its annual planning and budgeting processes and improve its ability to measure and forecast performance. The project team uses a dedicated planning tool now part of Cognos Enterprise Planning to manage performance for restaurant operations, bakery operations and financial planning.

Outcome:

People: Restaurant general managers now are better able to manage the weekly closing process and employee scheduling. Area directors and regional vice presidents track performance of sites and managers who report to them. Corporate Finance and Operations use the new system to plan and track new restaurant openings and overall performance.

Process: The company has adopted driver-based budgeting to link resources to activities. It does sophisticated sales forecasting and plans labor scheduling based on the forecast. Finance uses sales per labor hour to track labor productivity rather than fixed costs. Finance rebudgets multiple times yearly in response to changes in business conditions.

Information: Finance prepopulates information for restaurant managers in the budget and planning templates. Finance also models the financial impact of scenarios for restaurant openings, which can be updated automatically to the consolidated company forecast.

Technology: The Cheesecake Factory has fully adopted IBM Cognos 8 Planning for reporting, analysis and forecasting. Its multidimensionality enables analysts to group data in various ways and explore scenarios to find the best solutions.

Business Benefits:

The Cheesecake Factory is able to compare performance and conditions at each restaurant, to spot exceptions and to provide individual advice across the operations chain. It can open more restaurants more quickly and plan scheduling accurately. Overall, the company can predict and respond to change better than in the past.

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With this deployment, the annual budgeting process that took the general managers five working days per location has been replaced by one that takes only two. Furthermore, previously 80 percent of that time was devoted to data entry, Hicks estimates, rather than analysis; now the opposite is true.

Enabling Talent

The regular budget tasks operational managers have to do have been eased as well. Finance prepopulates much of the information in the budget and planning templates so the managers spend more time reviewing and less time inputting. "Cognos Planning impacted us the most by reducing the amount of time our general managers need to spend on planning," Hicks reports. And it's not just planning that is affected. In 2003, Finance implemented a tool to help facilitate the weekly close process. "Our weekly closing process was reduced by an hour for each GM," he adds. "Combined, that is 150-plus hours per week of the general managers' time that we can divert to more important areas."

This shift is especially important because those affected are the people who run the restaurants or manage those who do: general managers of the individual restaurants, area directors and regional vice presidents. The company does not want them focused on administration. "General managers should be out front, on the floor and meeting guests, not in the back office crunching numbers," says Hicks. "They're sales-oriented people whose time is best spent managing the guests' experience."

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–Jason Hicks, manager of financial planning and analysis, The Cheesecake Factory

And when they are in the back office, he adds, "They need to be managing other processes, such as the labor schedule, more than reviewing the books." Contributor makes that easy to do. "The planning solution offers our managers an easy-to-use interface that we could customize to fit our business model," Hicks says.

Planning on Many Fronts

The Cheesecake Factory has continued to expand and improve how it handles planning and forecasting. Among the early projects was to develop a model for planning operational targets for all new restaurants – a critical process for a company pursuing such dramatic growth. Previously, this was laborious and time-consuming, and when something changed, users had to manually change other areas it affected. Completed in Excel, this created the same risks of data reliability and version control. Using the new system, the team was able to automate many aspects of new store planning. A major breakthrough came in 2005 when Finance formally established driver-based performance benchmarks for all new openings. "With the core driver-based model in place, we could easily model each new restaurant," Hicks says.

The opening plan gives the company greater flexibility to model the financial impact of multiple opening scenarios. The financial impacts of these scenarios are automatically updated to the consolidated company forecast by modifying key drivers such as opening date and market type for each new opening. Cognos Planning enables regression planning, so Finance can set the target opening drivers and calculate milestones that give managers weekly progress reports that compare actuals to projections along the way. The degree of automation that the opening plan provides is a key factor in The Cheesecake Factory being able to open restaurants at a rapid pace.

The company now plans on both strategic and tactical levels. It has moved from basing budgets on static profit-and -loss (P&L) statements to driver-based budgeting. Plans based on P&L are disconnected: They aim to raise revenue levels and hold down expenses. Driver-based plans, in contrast, focus on the relation of resources to activities – figuring, for instance, how much staff, food and supplies are needed to achieve sales targets.

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For example, consider labor, which is The Cheesecake Factory's largest cost. Each restaurant has approximately 200 employees who must be tracked in 15 different job codes and a number of pay ranges within each of them. In 2004, Finance modified its metric for sales per labor hour (SPLH), which tracks labor productivity rather than fixed costs. Using planning, Finance was able to retool this key metric to better measure workgroups against the categories they impact the most, while also creating multiple sales tiers so restaurants could be benchmarked against other like restaurants. "The enhanced SPLH metric helps managers schedule with more confidence since it is based on their exact business," Hicks explains.

Even with increases in the minimum wage that affect tipped employees, Hicks estimates that this metric saves the company some $2 million annually in labor costs. "We have seen some margin pressure in labor, but the productivity savings help to mitigate these pressures," he says.

This level of operational planning would not be possible without sophisticated sales forecasting. "It all starts with the sales forecast," says Hicks. "If we do that right, we can go into the labor forecast with confidence."

With Cognos 8 Planning, The Cheesecake Factory's sales forecasting is very accurate, Hicks reports. Using the weekly sales forecast model, he says, "Our goal is get our weekly sales forecast to within 3 percent for individual restaurants and 0.3 percent for the company as a whole."

Managing Change, Doing More

Finance has expanded its planning and forecasting capabilities each year, supported by the flexibility and automation capabilities of its technology. "We can do live rebudgeting during the year," says Matt Clark, vice president of strategic planning and Hicks's boss. "Jason and I can change assumptions several times before we finish, but it doesn't impact the rest of operations."

Not long ago, the planning process was at an advanced stage when the CEO implemented a change to a key assumption. In the past this would have meant sending out new spreadsheets and collecting updates by e-mail, a chaotic process that could have introduced errors and would have been time-consuming. In the new setup, the updated versions of the plan were available online immediately.

Finance also has greatly increased its analysis and planning capabilities. It can, for example, group data in more ways – by time, business driver, geography or restaurant type. Cognos Planning's multidimensionality enables analysts to pull these dimensions together, find the sources of variances and determine whether they are meaningful and why. The issue could have to do, for

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–Matt Clark, vice president of strategic planning, The Cheesecake Factory

example, with economic conditions or weather in a region, or the age of a restaurant and its facilities. "By setting the drivers against each other, we can define impacts faster," Clark explains. "This enhances senior management's visibility into why some restaurants need more or less help than others. Management needs to know that right away, so we can be nimble and respond fast."

Clark and Hicks are always looking for new areas to extend planning and forecasting to improve operations and support company goals. In addition to its restaurants, The Cheesecake Factory operates two bakery production facilities. As well as baking for the restaurants, these two central facilities also sell desserts and other baked goods to a variety of distributors. To do this well requires a robust set of sales processes that can track many distributors, SKUs and other data and change as the bakery business does. Finance's experience with planning and forecasting enabled it to build that model. Beginning in 2005, the bakery division began to use Cognos Planning for both third -party sales forecasting and cost-center planning.

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And this is the third year in which the company has run the full consolidated forecast out of Cognos Planning. Overall, says Clark, "We have moved from a focus on one number and one restaurant at a time to globally managing our field teams toward aggregated directives."

A fast-growing business also needs to look farther ahead. "We realized that we needed to create better long-term financial plans," says Clark. "With the new planning process in place, we can focus our attention on strategic initiatives five years ahead."

In addition to planning and forecasting at the enterprise level, the planning and budgeting processes enable management to compare performance and conditions at each restaurant, to spot exceptions and to provide individual advice down through the operations chain. Using Cognos 8 Planning, Finance works hand-in-hand with the area directors and restaurant managers to help them better understand the operational drivers that impact financial results.

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>
> –Jason Hicks, manager of financial planning and analysis, The Cheesecake Factory

The results have been gratifying. In 2007, Hicks received the annual "Commitment to Excellence" award, voted on by the general managers and area directors. He was the first finance person so honored. But relations weren't always so rosy; in order to be successful, the finance and operations team had to manage cultural change as well. "Initially many managers were worried about giving up the ability to control their plans," Hicks recalls. Over time, however, the operations team began to see Finance as facilitators rather than controllers. "Some of the managers who were most concerned then are now my biggest proponents," he adds.

It all adds up to the ability to execute strategy effectively at every level of the business. "We are an operations-driven company, and this is our operations control room," says Clark. "As we scan the financial plan as well as the ops plan, it's not just about the P&L now. This is near-term management of our business in real time."

Managing the business with the help of modern planning and forecasting has served The Cheesecake Factory well. From 2000 to 2007, according to Hicks, its compound annual growth rate has been 20 percent on revenue and 18 percent on earnings per share – impressive numbers by any measure.

About Ventana Research

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