SEGMENT PROFITABILITY IN THE LEISURE INDUSTRY

Rainer Lueg, Leuphana University, Germany and University of Southern Denmark, Denmark

dx.doi.org/10.18374/IJBS-21-1.2

ABSTRACT

This case study illustrates a young franchise in the leisure industry on its path to higher profitability. Specifically, it deals with the profitability of its different recreational segments and the profitability of the main customer groups within these segments. It also discusses how to incentivize non-executive, regular employees to improve the profitability of segments and customer groups. In addition, it also elaborates which control mechanisms of top management are appropriate to monitor the progress. The open questions at the end of the case study should foster classroom discussions on managerial implications.

Keywords: *Segment profitability; customer profitability; teaching notes; target setting; incentives.*

1. INTRODUCTION

"Bo's Bar & Bowl" (BBB) is a bowling alley with a bar that serves drinks and food. The managing owner Bo has just opened this franchise from the franchiser "Global Bowling Associates" (GBA). He runs the bowling alley with 10 lanes and the bar as two separate departments.

Each department has a manager who gets a bonus based on the profitability of their department. Bo feels that not everything is running smoothly yet, so he has asked a close friend who studies business to advise him on a couple of issues. You happen to be this friend.

2. SEGMENT PROFITABILITY

Bo has realized that there are large sums of fixed overheads that he cannot trace directly to each department. He shows you the following information from last year:

	Bar	Bowling Alley	Total
Revenues (in Euro)	247,500	302,500	550,000
Direct costs (in Euro)	107,500	137,500	245,000
Segment margin (in Euro)	140,000	165,000	305,000
Floor space (in square meters)	300	1,800	2,100
Employees (full-time equivalents, FTE)	6	2	8
Indirect costs (in Euro)			195,000
EBITDA (in Euro)			110,000

3. REQUIRED

1) Determine the division margins as a percentage of revenue.

2) Bo is asking you for alternative options to allocate the fixed overheads. Calculate three possible EBITDAs for each department (in Euro). For this, allocate the fixed overheads according to direct costs, floor space, and FTEs.