Get Fresh. Get Pal's.

2001 Malcolm Baldrige National Quality Award Application Summary

• Fastest Service Times •

• Largest Market Share Growth •

• Highest Productivity •

• Highest Health Scores •

• Lowest Turnover •

• Highest Web Site Traffic •

Pal's Sudden Service, a quick-service restaurant (QSR), is the region's benchmark for food safety and health. Pal's enjoys major financial success by out-performing its best competitor with a customer-driven approach to business excellence, superior process management, rapid process improvement, rapid service, and effective use of human resources. In addition, Pal's has more thorough deployment of market-driven business objectives than its competitors, and its leadership is sharply in tune with organizational needs.

ORGANIZATIONAL DESCRIPTION

Organizational Environment

Pal's product line consists of a focused group of food (hamburgers, ham and chicken sandwiches, hot dogs, French fries, and breakfast biscuits) and beverages (soft drinks, tea, coffee, milk shakes) with a unique flavor profile designed to meet our customers' taste requirements.

Pal's, a privately owned company, was founded in 1956. The company maintained two walk-up stores until 1985 when Pal's first drive-thru-only location was opened. The new drive-thru facility design was developed to provide a low start-up cost, an ultra-efficient operating process capable of selling the highest quality hamburgers and hot dogs at competitive prices, and even quicker (more sudden) service times than ever before.

To create value and competitiveness in the markets we choose to serve, Pal's has developed the ability to effectively integrate manufacturing, service, and retail into its operational systems. In addition, we have learned to

Vision Statement

To be the preferred quick service restaurant in our market achieving the largest market share by providing:

• The quickest, friendliest, most accurate service available

• A focused menu that delights customers

• Daily excellence in our product, service, and systems execution

• Clean, organized, sanitary facilities

• Exceptional value

• A fun, positive and profitable experience for all stakeholders

Mission Statement

To deliver excellence in food service while providing a menu focused on exceptional quality

Values and Code of Ethics

Positive Energy
We will always nurture a positive, enthusiastic atmosphere, which will foster mutual trust and respect among employees, customers, and suppliers. Further, we will always operate with open agendas, positive interactions and genuine motives

Honesty and Truthfulness
We will always be honest and truthful in all relationships, respecting and relying on each other

Employee Well Being
We will aways provide a safe, healthy, and desirable workplace

Citizenship
We will always provide community involvement through personal and company contributions of time, effort, and resources. Through our best effort and consideration, we will always protect public health, safety, and the environment

Golden Rule
We will always do unto others as we would have them do unto us.

apply world-class management principles and best-in-class processes that cause other companies emulate to our systems.

Pal's culture guides employee behaviors through a set of clear values, beliefs, and expectations defined by our Mission Statement, Vision Statement, and Values/Code of Ethics. These strategic components are communicated to all levels of the organization and to all stakeholders for review, understanding, interpretation, and feedback.

Pal's has over 400 employees. Within Pal's organization structure, our people are classified in four groups:
• General Staff (Process Management Teams)
• Assistant Managers
• Store Owner/Operators
• Senior Leaders (Chairman, President/CEO).

Ninety-five percent of our staff works in direct production. The majority of our general staff and hourly managers range in age from sixteen to thirty-two. Typically, they view their job at Pal's as an entry into the job market, providing a first step toward a long-term career in another industry. These factors create a young, inexperienced, transient workforce that must be trained to produce quality results and make positive direct customer contacts on a regular basis.

In the quick-service restaurant business, the facilities and equipment must be capable, reliable, and sanitary. Pal's drive-thru facilities have been designed to be efficient and effective. The equipment, facilities, and technologies that Pal's uses to meet customer needs are components that serve our manufacturing, service and retail needs through ongoing use of our Benchmarking, Innovation and Product/Service/ Process Introduction processes.

Our process layout is designed so that raw materials enter through a delivery door and are worked forward through the store with one process serving the next process in the processing/assembly/packaging line until a finished product is handed to an external customer. The major technologies involved are order taking, cooking, holding, filtering, order delivery, and packaging. In each category we have developed proprietary state-of-the-art technology to achieve product and service quality and to provide efficient product flow.

Cleanliness, sanitation, safety, waste disposal, and labor practices at Pal's are regulated by a variety of local, state, and federal agencies. We are regulated locally by Fire,

Building and Waste Disposal codes; at the state level by Health, Labor and Workers Compensation requirements; and federally by OSHA, EPA, and Wage and Hour laws.

Organizational Relationships

Pal's target market is made up of eight small to mid-sized cities in the geographical area of Northeast Tennessee and Southwest Virginia. The customer base consists of people from the market area who work and live in our target market. Eighty-two percent of our customers live or work within three miles of one of our restaurants. We segment our markets according to age, gender, and annual income.

At Pal's, we performed extensive market research to pinpoint customer requirements: convenience; ease of ingress and egress; easy-to-read menu; simple, accurate

> ### Key Business Drivers
> • Quality of products, service, and process
>
> • Service
>
> • Cleanliness
>
> • Value
>
> • People
>
> • Speed

order system; fast service; wholesome food; and reasonable price. This data has been used to translate our key customer requirements into Key Business Drivers.

Customer requirements are linked to clearly defined operational processes, procedures, and systems that are continually monitored to ensure that we are meeting customer requirements. We maintain on-going communications links to our customers so that we can listen to how well they think we are meeting their needs. We also listen to learn if customer needs are changing or if new needs have arisen.

Pal's has three key suppliers/partners who provide the majority of our raw materials. Focusing our supplier/partner base on just three vendors has reduced

product variability. It has also allowed us to develop a more positive relationship with each supplier/partner with whom we have established long-term, mutually beneficial partnerships. We work with suppliers to design in quality, value and our unique flavor profile.

ORGANIZATIONAL CHALLENGES

Competitive Environment
Pal's competes in a regional market head-to-head with franchises of major international and national fast food chains.

The principle competitive factors that determine Pal's success in our market are:
• Food quality
• Service speed
• Food health and sanitation
• Pricing
• Staff turnover
• Food cost

These factors have been identified by the Leadership Team, linked to Key Business Drivers, and supported by aligning manufacturing, service, and retail processes. We use the Malcolm Baldrige Criteria for Performance Excellence to assess our Business Excellence Process and determine gaps in our alignment and performance.

The food industry, and especially the QSR segment, is continually impacted by changes that affect competition. Currently, Pal's is concerned with a tight labor market in our service area, consolidations of paper suppliers, competitors refocusing on core menus, and shake-outs (forced business closings) in the restaurant industry.

Strategic Challenges
Pal's faces several key strategic challenges:
• Competing directly with much larger national chains that have national reputations and much larger marketing budgets.
• Operating with a tight labor market.
• Maintaining and growing market share.
• Maintaining and improving standardization within our operations as we increase business and the number of

stores we operate.

Performance Improvement System
Pal's has created an environment that promotes continual improvement. Systematic evaluation and improvement processes that are role-modeled by Pal's leadership support this environment. Because of the management-led and organization-wide focus on continual improvement, major results are improving. This improvement is generating improvement stories that cover almost every aspect of the business. Some of the key processes that support systematic evaluation and improvement are:
• Communication/Feedback Process
• The Systematic Evaluation and Improvement step that is built into all major processes
• Strategic Planning Process
• Product/Service/Process Introduction Process
• Benchmarking Process
• Continual Improvement Process

Best Practices are routinely identified, verified, standardized, and appropriately replicated throughout all the Pal's stores in a rapid and effective manner. Pal's Balanced Scorecard, which measures all the Key Business Drivers, helps guide improvement efforts to make sure improvements are effective in improving the Key Business Drivers. In addition, facts and data are the basis for Pal's systematic evaluation and improvement processes. Organizational learning, employee development, and continually improving results are basic characteristics of the Pal's culture.

Since beginning business in 1956, Pal's operations have been based on the principles: (1) that leaders should establish company values by first setting the example through their own personal choices and behaviors (2) that each business transaction should be focused on serving the customers in a way that delights them and (3) that store owner/operators should have a financial stake in the success of the business. These principles are the cornerstones of Pal's leadership approach.

ORGANIZATIONAL LEADERSHIP

Senior Leadership Direction

Pal's Senior Leaders (Chairman and President/CEO) set, communicate, and deploy plans to properly address the desired organizational values, short- and longer-term directions, performance expectations, a focus on customers and other stakeholders, learning, and innovation. They personally lead, monitor, and coach the Pal's Leadership Team (senior leaders and all store owner/operators), which meets each month to review and share lessons learned on the day-to-day, week-to-week, month-to-month, year-to-year application of the Pal's Business Excellence Process (Figure 1). The combination of leadership methods/ principles and leadership resources provides the structure and the capabilities needed for guiding and aligning business decisions and actions throughout the organization.
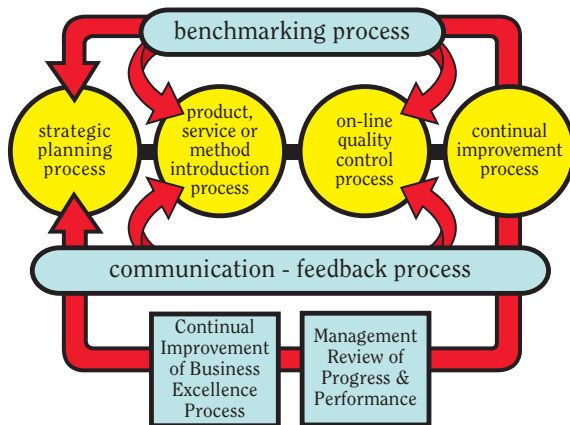

Figure 1 Pal's Business Excellence Process

The Strategic Planning Process (Figure 2) is applied by the Leadership Team to set direction and pursue future opportunities for the business while using inputs from all key stakeholders (e.g., customers, store owner/operators, general staff, suppliers/partners), taking into account their
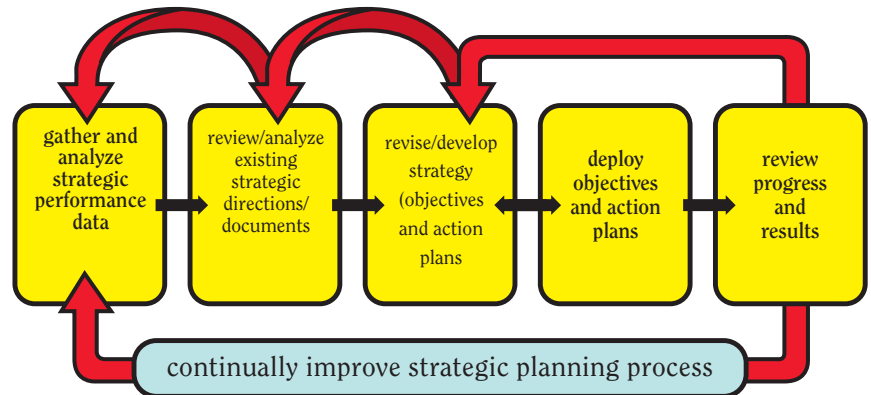

Figure 2 Pal's Strategic Planning Process

needs and expectations. This process is used to define, align, review, and maintain a Corporate Mission Statement, Vision Statement, Key Business Drivers, Values & Code of Ethics, and action plans. Through these strategic outputs, Pal's Leadership Team maintains clear values, high performance expectations, and a keen focus on all stakeholder needs. Senior leaders and store owner/operators communicate and interpret these at each organizational level to define organizational, store, and individual responsibilities and to identify opportunities for learning and innovation.
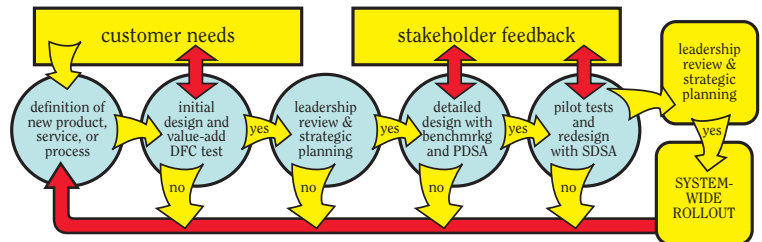

Figure 3 Product/Service Introduction Process

Innovation is driven through the Product/ Service/ Process Introduction Process (Figure 3). Senior leaders personally lead cross-functional teams through this systematic approach for developing new or modified products, services, or processes.

Leadership Team members adopted the On-line Quality Control Process (Figure 4) and routinely review its application of best practices to achieve high performance and excellence in Pal's operational and support processes. This ensures consistent adherence to procedures, standards, and targets.

The Benchmarking Process (Figure 5), which has been applied informally for over forty years by senior leaders, has been formalized to provide the entire Leadership Team an
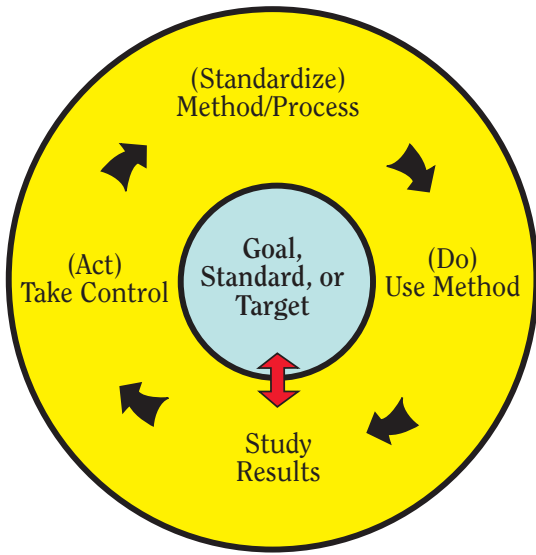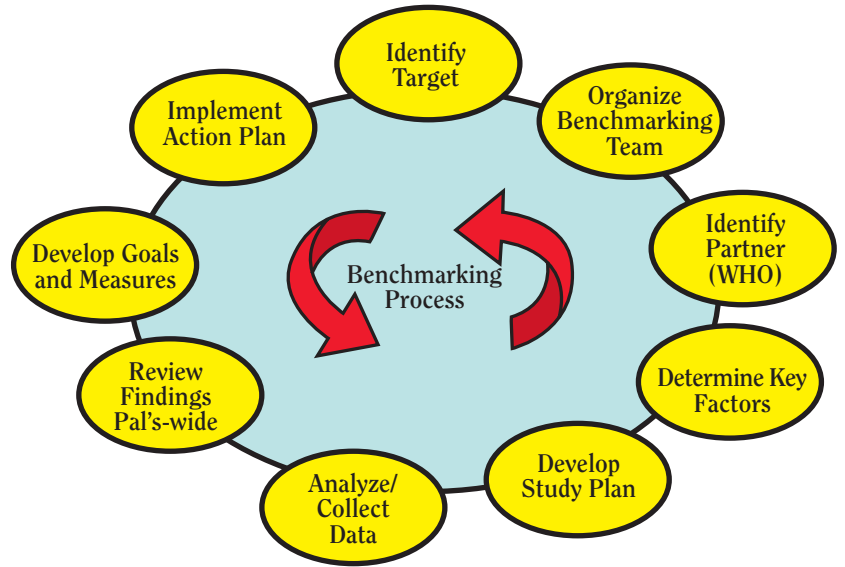
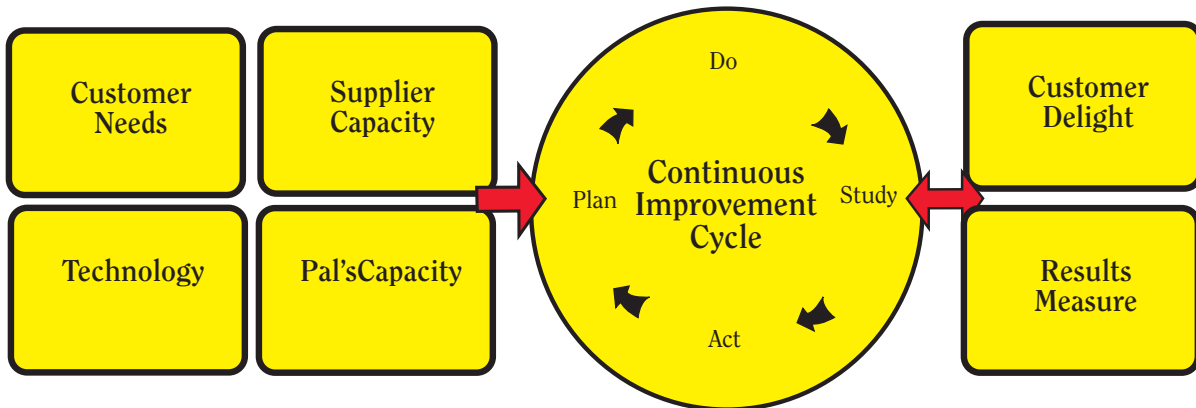Figure 4 On-line Quality Control Process

Figure 5 Benchmarking Process

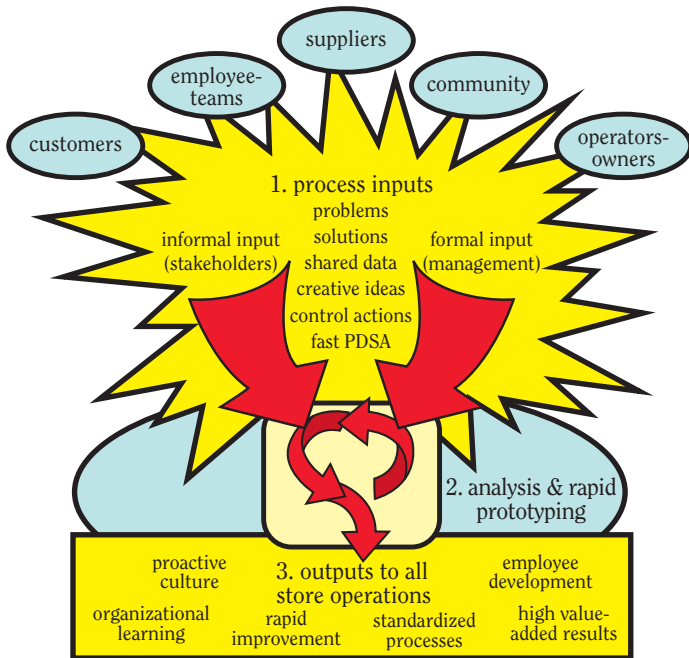Figure 6 Continual Improvement Process

Figure 7 The Communication/Feedback Process

effective means of making meaningful competitive comparisons, identifying and adopting best practices needed to achieve high performance expectations, and achieving defined directions for the future.

The Continual Improvement Process (Figure 6), featuring a Plan-Do-Study-Act cycle (PDSA), defines standards of excellence needed to maintain a focus on customers and other stakeholders. It is also used to identify, plan, and execute improvement projects.

The Communication/Feedback Process (Figure 7) is a progressive and rapid means of communication to/from all stakeholders. This process serves as a standard operating mode for Leadership Team members:
• Step 1 - Process Inputs - Leadership Team members use this step informally during normal interactions with all stakeholders by continually listening to them as they identify needs, problems, solutions, and creative ideas while conducting normal business functions. In addition, formal data is gathered from the Pal's process management system and used to identify further inputs (and to validate informal information).
• Step 2 - Analysis & Rapid Prototyping - Step 2 involves capturing the formal and informal data from Step 1 and rapidly sharing it with all Leadership Team members who begin rapid analysis, problem solving, and innovation. If an idea appears to be applicable, senior leaders initiate the Product/Service/Process Introduction Process to develop

prototypes and move toward implementation of improved product/service designs and process standards.
• Step 3 - Outputs to all Store Operations - Step 3 involves quick deployment/sharing of the information/learning throughout Pal's operations in all stores, maximizing its improvement value.

Values, beliefs, expectations, company directions, and future opportunities are set and communicated by the Leadership Team through Pal's Mission Statement, Vision Statement, Values/Code of Ethics, and Action Plans for Key Business Drivers, which are developed, regularly reviewed, and updated as appropriate. These strategic components are communicated to all levels of the organization and to all stakeholders for review, understanding, interpretation, and feedback.

Senior leaders personally drive the Business Excellence Process by leading teams; serving on teams; designing and improving products, services and processes; teaching classes; attending training sessions; participating in benchmarking studies; applying the rewards system; interfacing with customers; Marketing by Wandering Around (MkBWA); making public speeches; doing strategic planning; and performing management reviews. The Leadership Team routinely evaluates and improves the components of Pal's Business Excellence Process using feedback throughout all company organizational levels and among all stakeholders.

The impact on Pal's organization from this leadership-driven, full stakeholder involvement approach to deployment has been rapid improvement actions, standardized processes, ongoing organizational learning, employee development, a proactive culture, and high value business results.

The pervasive use of the Communication/Feedback Process allows the Leadership Team to listen for, and rapidly consider, test, and implement ideas for improvement. This practice creates and reinforces an environment for participation, empowerment, and innovation. It also encourages organizational agility and organizational and employee learning.

The senior leaders and Leadership Team fully assume the responsibility for applying the Business Excellence Process. However, ideas for improvement frequently originate from employees (and other stakeholders) outside the Leadership Team. Each senior leader and owner/operator spends a portion of every day actively seeking input from employees,

customers, suppliers, and other stakeholders to gather inputs used in the Business Excellence Process.

The combination of Pal's values, principles, standards, and expectations matched with the real life example set by our leaders provides a positive role model for the employees who work with us and the stakeholders who do business with us. This plan to develop integrity and ethics throughout all layers of the Pal's organization simultaneously supports our strong focus on excellence.

Organizational Performance Review
Senior leaders, along with all owner/operators (i.e., the Leadership Team), routinely review data trends and variation to assess performance toward goals and to perform any required problem solving.

This management review is performed in addition to the shift, daily, and weekly reviews. Appropriate action plans are developed during the reviews based on findings. Key learnings are captured and shared throughout the organization using the Communication/Feedback Process and the On-line Quality Control Process. Directions and plans are revised or restructured based on changes in customer/stakeholder needs, what we learn as an organization, what our competition is doing, and what we discover from benchmarking with Best-In-Class performers. When performance meets or exceeds goal criteria, we seek meaningful ways to celebrate with our employees, customers, and other stakeholders.

During management reviews, the senior leaders, in conjunction with the Leadership Team, determine priorities for needed improvements and opportunities for innovation. Our Continuous Improvement Process (see Figure 6) is used to translate these priorities and opportunities into plans. This involves detailed study and rapid prototyping through the Product/ Service/Process Introduction Process or rapid innovation (piloting/testing) through the Communication/Feedback Process.

Leadership Team members set the example for the way key systems should be evaluated and improved by using organizational performance review findings to evaluate and improve the Business Excellence Process. The Leadership Team makes sure the components of the process are routinely evaluated and improved during their meetings by using input gathered by the Communication/Feedback Process from all stakeholder groups. This healthy, open

flow of information has greatly improved Pal's ability to set and deploy direction, plans, and actions, and to achieve desired results.

PUBLIC RESPONSIBILITY AND CITIZENSHIP

Responsibilities to the Public
The Leadership Team addresses Pal's societal responsibilities by making sure three primary risk management areas are managed in a way that is consistent with our own values and expectations: the safety of the food we sell, the people we employ, and the environment in which we operate. Pal's anticipates public concerns and establishes appropriate measures and goals in these areas.

To anticipate public concerns, Pal's gathers information from all levels of its organizational structure and reviews data collected from other sources. Included are customers, suppliers, the Tennessee Restaurant Association, the National Restaurant Association, the Restaurant News, legislative bills, the Fire Marshall, OSHA publications, State Department of Health, Labor Department, local/national media, and Pal's Benchmarking Process. Based on this information, Pal's Leadership Team members use the Continual Improvement and Strategic Planning processes to set targets and goals related to potential and current public concerns.

In response to the growing public concern over food safety, Pal's developed a Risk Management Process centered on hazard analysis, safe service methods, and in-house sanitation inspections. We have implemented the Hazard Analysis Critical Control Point (HACCP) Program and adopted the National Restaurant Association's ServSafe training and certification, an industry best practice for food safety education, as a standard requirement. In addition, in-house health inspections are conducted in all Pal's stores.

Safe, clean, and secure processes and facilities for customers and the environment are also of significant concern for Pal's. Facility and process designs and in-house inspections focus on adequate lighting in parking lots, curbing, security practices, slip-resistant floors, safety glass on windows and doors, housekeeping practices, waste receptacles and disposal, food packaging, and other potential injury, illness and hazard-causing conditions. Waste disposal is carefully managed and transported to

approved landfills. Internal incidents, customer listening, literature searches, and benchmarking are all used to identify existing and potential public hazards that are addressed by our Strategic Planning and Continual Improvement processes.

Pal's Leadership Team defines ethical business practices as strict adherence to the Pal's Values/Code of Ethics. Senior leaders and owner/operators routinely share/communicate the Values/Code of Ethics with all of Pal's stakeholders and use it as a guide for assessing ethical performance of employees and suppliers/partners. The Values/Code of Ethics are also used by senior leaders and store owner/operators in Leadership Team meetings as a self-assessment tool to evaluate and improve their own ethical compliance.

SUPPORT OF KEY COMMUNITIES

At Pal's, the Leadership Team has identified a three to five mile radius around each store as the key communities for organizational involvement and support. These geographical areas are primarily where our customers live and work. The senior leaders (for Pal's overall community) and each owner/operator decide on the areas to support.

A major responsibility to our local communities is the shaping of our employees into positive citizens. By helping our people grow, develop, and become better citizens, Pal's helps make our business more successful while also making our communities a better place to live and work. Leadership Team members fulfill this responsibility by role modeling and teaching good citizenship and good work practices. Each senior leader and store owner/operator is actively involved in various community organizations and projects, serving as directors, chairs, board members, contributors, and project leaders.

A standard practice at Pal's is to keep our stores open during inclement weather and natural disasters. Whenever our market areas experience severe snow, ice, rain, or electrical storms, Pal's stores remain open when our competitors close shop and send their staff members home.

Pal's Leadership Team has also opened its meetings and training to local businesses so they can observe our business excellence practices. Many local businesses have attended and participated in these meetings and have invited us to speak publicly on our stakeholder-focused Business Excellence Process at civic group meetings and other professional and community functions. We frequently share our knowledge, experience, and key learnings with fellow citizens.

Pal's Senior Leaders rely on strategic objectives and action plans to produce customer-driven quality, market-focused growth, operational excellence, and responsible corporate citizenship. Key strategic planning outputs guide ongoing decision-making, resource allocation, and company-wide management.

STRATEGY DEVELOPMENT

Strategy Development Process

The Pal's Strategic Planning Process (Figure 2), which is performed annually, focuses on a two-year planning horizon.

Step 1 - Gather and Analyze Strategic Performance Data (Strengths, Weaknesses, Opportunities, and Threats) - In addition to collecting data from all levels of the organization, Pal's gathers data from our primary stakeholders (i.e., customers/market, employees, community, competitors, financial, regulatory, internal performance, suppliers/partners performance, technology, and food industry). The leadership team analyzes all data using a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis and risk review.

Step 2 - Review/Analyze Existing Strategic Directions/Documents -Analyzed data from Step 1 is used to evaluate the appropriateness of the existing strategic documents/outputs (Mission, Vision, Values/Code of Ethics, and Key Business Drivers).

Step 3 - Revise/Develop Strategy - Results of the SWOT analysis and risk data from Step 1 are used to perform various functions (e.g., visioning, forecasting, projections, options development, brainstorming, scenarios). Strategic documents and outputs from Step 2 are used as references to ensure consistency is maintained during the establishment of short-term and longer-term strategic objectives and action plans.

Strategic data analyses and interpretations are carefully evaluated against our own operational require-ments, our capabilities, and available capital before strategic objectives and plans are chosen.

Step 4 - Deploy Objectives and Action Plans - Deploying objectives and action plans to all levels of the Pal's organization and to all stakeholders involves developing item-specific action plans, which are analyzed and integrated into a single, coordinated, large-scale action plan designed to accomplish the overall objective.

Step 5 - Review Progress and Results - The Leadership Team reviews progress and results using Pal's Management Review Process.

Step 6 - Continually Evaluate and Improve Strategic Planning Process - The Leadership Team devotes part of its annual planning agenda to evaluating and improving strategic objective selection, action planning, deployment, our capabilities for tracking and achieving performance relative to plans, improvement planning, benchmarking, innovation, problem solving, and performance.

Customer and Market Needs/Expectations are evaluated using market research studies and customer complaint data. These data are used to interpret customer needs and requirements, to project market trends, and to establish new strategies that will delight customers and sustain our competitive advantages.

Competitive Environment and Capabilities Relative to Competitors are evaluated with data from our bench-marking process (Figure 5), benchmark data exchange, and competitive reviews. We use the data to identify market and industry trends, industry and competitor capabilities and Best Business Practices, competitor strategies, potential competitor reactions to our strategies, and promotional and technological improvement opportunities.

Technological Risk is evaluated with data gathered from manufacturers, vendors, and industry trade associations using the following criteria:
• How will the technology help us meet needs?
• Are any of our technologies becoming obsolete?
• Do our existing technologies have new hazards/ risks?

• What new technologies offer us a competitive edge?
• Are the new technologies cost effective?
• Are competitors developing/using new technology?
• Will the technology become an industry standard?
• What training will we need for our staff?
• What safety risks are associated with it?

Pal's Strengths and Weaknesses are addressed using the SWOT Analysis, supported by various analyses of key processes, internal capabilities, and KBD data.

Human Resource Capabilities/Needs are addressed after business and operational strategies and Key Business Drivers have been identified. Included in this area are strategies and plans to train and educate personnel, to build staff capacity for strategic success, to improve work/job designs and work areas, and to build a better culture for excellence.

Operational Capabilities and Needs are considered by evaluating anticipated needs and capabilities for human resources, technology, research and development, innovation, and business processes. Internal capability data are analyzed against industry trends, technology developments, and performance advances, looking for ways to develop dominant positions within our market.

Supplier/Partner Strengths and Weaknesses are evaluated for Pal's three major suppliers/partners who provide 100% of our raw materials. These suppliers/ partners are reviewed semi-annually to analyze:
• Their own competitive market positions
• Their process and performance capabilities
• The quality and availability of their supply lines
• Their projected product cost trends
• The impact of new technologies in their industry
• Any risks that may threaten their business and their ability to deliver quality and value on-time to Pal's

Financial risk is given special consideration using a comprehensive Financial Planning Process, which includes annual assessments, budgeting, forecasting, and decision-making to guide short-term cash flow and longer-term profits. Detailed cost projections are made for each store to accurately manage profit and loss, cash flow, expansion and capital investment, and daily financial decisions.

Societal and Market Risk are analyzed with specific criteria for assessing potential value added or threats for all stakeholders. Some of the sources of information that are used include restaurant associations, market studies, bills coming before the legislature, OSHA publications, Department of Health, Department Of Labor, and Pal's Benchmarking Process. The issues that emerge from all of the above analyses are subjected to an extensive SWOT Analysis.

Strategic Objectives

Pal's current strategic objectives that address its strategic challenges are:
- To improve competitiveness directly with national chains. - We have a strategic objective of Improving the Public's Image/Perception of Quick-Service Restaurants. We also have a Human Resource objective of Better Developing and Utilizing Assistant Managers.
- To handle a tight labor market. - We have a Human Resource objective with action plans for Minimizing the Threat of a Shrinking Labor Pool.
- To maintain and grow market share - We have a strategic objective with action plans for Increasing Market Share. Continuing to open new stores in new market niches is a key element for growing market share.
- To maintain/improve standardization - As we increase business and the stores we operate, we have a Human Resource strategic objective of Improving People Capabilities through processes and work designs.

Before the final selection of Strategic Objectives and Action Plans takes place, we solicit input from all employees and stakeholders, testing needs for credibility, reasonableness, and commitment through our Communication/Feedback Process.

STRATEGIC DEPLOYMENT

Action Plan Development and Deployment

Once a strategic objective is determined, alternatives/ options are considered and an optimum action plan is developed to achieve the objective. We develop item-specific action plans using cause-effect analyses with input from key stakeholders in the area impacted. These individual action-item plans are analyzed and integrated into a single, coordinated, large-scale action plan to accomplish the overall objective.

One of the critical roles of our store owner/operator is the deployment of strategic objectives and action plans to all levels of the Pal's organization. They communicate our goals to the entire staff through workplace scoreboards, meetings, training sessions, memorandums, and one-on-one discussions detailing how individual performance will impact the planned strategic goals.

We allocate our best, most capable resources to accomplish the objective we have determined adds the most value to all stakeholders. We allocate remaining available resources of manpower, materials, and money in the order of importance of each objective relative to the others. Allocations are done with a careful eye on our organizational design and operational requirements since over-stressing can lead to sub-optimization of the whole.

Monthly Leadership Team meetings include regular reviews of action plan progress as well as performance reviews of current operating results measured against strategic targets. Current performance measures for tracking progress versus action plans include:
- Action Plan Milestones Completed
- Compliance to Target Completion Dates
- Compliance to Target Budgets
- Number of Training Modules Developed/Tested
- Number (%) Employees Trained
- Number of Assistant Managers promoted/ retained
- Number of Positions Targeted and/or Filled with Co-op Students (High School and College)
- Compliance to New Lighting Standards
- Average Staff Wage

Performance Projection

At Pal's, our Business Excellence Process (Figure 1) will continue to drive us toward performance improvement over the next two to five years by maintaining our focus on strategies and plans linked directly to Key Business Drivers and derived heavily from customer/market.

Pal's projected performance will continue to strengthen our position as the market leader versus our leading competitor by generating additional sales, and by developing the required operating capabilities. At this time, we are the regional leader in all major areas of comparative performance (quality, service, speed, food health/safety, customer satisfaction, market share, sales, and profit).

The priority of customer and market focus at Pal's is reflected in our menu design (food items offered), flavor profiles (taste), pricing strategy, sudden service objectives, customer delightment vision, packaging designs, customer contact standards, store design, complaint resolution policy, sanitation standards, and even our dress code. Our ability to understand the voices of our customers and the market ultimately determines our business success. Throughout the Pal's history, we have placed a major emphasis on (1) establishing a world-class process for listening, learning, and understanding what our customers and market expect and (2) determining how satisfied they are with the products and service we deliver to them.

CUSTOMER AND MARKET KNOWLEDGE

Pal's uses the industry-proven standard method of segmenting by age, gender, income, and proximity to the store location for analyzing buying patterns and defining expectations. The following conclusions and strategies have been determined:
- Age - Pal's menu structure is geared toward sixteen to fifty-four year-olds, which is the age group that frequently purchases fast-food hamburgers, hot dogs, French fries, and soft drinks.
- Gender - Our customers are predominately female (sixty-four percent) who favor Pal's because of superior quality (taste and temperature), service (speed and accuracy), and sanitation levels (State Health Scores).
- Income - Most of our customers earn less than $36,000 annually and require a reasonably priced menu.
- Proximity and Convenience of Locations - The majority of our customers live or work within a three-mile radius of one of our locations. Sixty-two percent prefer drive-thru service to dining in. Convenience is a key factor in their choice of where they make their fast-food purchases.

Pal's market research seeks comparative information relating to key issues such as (1) customers likes or dislikes concerning Pal's or specific Pal's competitors, and (2) reasons a particular restaurant is selected as a favorite. We analyze the comparative data for trends and shifts in buying patterns to

identify needed changes in our business strategy and to target other potential customer groups and future markets.

Key customer requirements and drivers of purchase decisions are determined from the application of the following listening and learning methods:
- Telephone interviews
- Mall interviews
- Drop-in surveys
- Mail-in surveys
- Marketing By Wandering Around (MkBWA),
- On-site interviews
- Web-based surveys

Our listening strategies allow us to maintain continuous contact with customers and obtain valuable information directly from them to identify current and future needs.

Product and service features are determined by listening for customer wants and needs, benchmarking/evaluating competitor products and services, evaluating supplier products and capabilities, and ensuring we have the technology and capabilities to meet those needs. We also use industry and competitive data to help realistically predict future trends in consumer tastes and buying patterns. Analysis of sales data and customer input from our entire customer listening/learning sources helps pinpoint the relative importance of these features.

Pal's frontline staff training program includes intense instruction on effective listening skills. These skills are not only critical for high performance on the food preparation line (required for order accuracy, speed, and customization), but are also beneficial for gathering valuable customer information about needs, expectations, and satisfaction (as post-transaction feedback).

Through the Plan-Do-Study-Act improvement cycle (see Continual Improvement Process in Figure 6), we conduct small-scale pilot efforts to evaluate and improve our processes for listening to and learning from customers and our ability to understand changing customer needs and buying habits. In addition, we measure and evaluate the overall effectiveness of our customer listening and learning

approaches by checking the validity of our market research, customer surveys, and results against operational data, industry trends, and competitor information. We also evaluate how well we are doing against our customer-focused strategic objectives by benchmarking our Key Business Drivers against competitors.

CUSTOMER RELATIONSHIPS AND SATISFACTION

Customer Relationships

Our primary strategy for building customer relationships is to create customer loyalty and referrals by providing value and delight through product quality, service speed, accuracy, friendliness, and aesthetic appeal.

Through training and coaching, we instill in our staff a positive, helpful, can-do focus on our customers, which also contributes to building good customer relationships. Through community service activities, we strive to be a positive, proactive force in building better communities within our market areas.

Pal's customer service standards (i.e., customer contact requirements) are derived from (1) listening to the wants and needs of our customers through our various listening sources, (2) benchmarking standards of industry leaders, and (3) developing our process standards to exceed customer expectations and competitor performance. Service standards are incorporated into our staff training as critical success factors and are reviewed at the store level daily. Feedback and coaching are provided by store owner/operators and assistant managers as appropriate to build customer service skills.

Our service standards are reviewed and evaluated on a regular basis by both the Leadership Team and our process teams. They are continually improved through use of the On-line Quality Control (Figure 4) and Continual Improvement Processes. (Figure 6.) A common agenda item for Leadership and process team meetings, service standards are analyzed during customer satisfaction performance data reviews to identify potential improvement opportunities, and they are routinely targeted during benchmarking studies.

Through our customer listening methods and studies of industry standards and best practices, Pal's has determined a variety of access mechanisms and sources of information that enable customers to easily seek assistance, conduct business transactions, and voice complaints:
- Centrally located stores
- Easy to locate store entrance.
- Easy to read, large lettered 3-D focused menus
- Direct, face-to-face access to order taker and cashier/order deliverer
- Continuous in-store availability of store owner/operator (a managing partner)
- Web site for contacting corporate office and stores
- Printed menus available in bags and various ads
- Long hours of operation (6:00 a.m. to 10:00 p.m.)
- Telephone numbers of individual stores and offices in telephone directories (white and yellow pages)
- Single-focused advertising strategies with bold messages and color
- MkBWA where owner/operator goes door-to-door in close proximity to store

Pal's stores are specifically designed with a trade dress intended to stand out from other restaurants, to be easily noticed and remembered, to be easily found for access, and to present a bright, fresh, up-scale appearance. Our menu boards are designed to allow customers to easily, accurately, and quickly read and understand them.

Pal's has a permanent, cross-functional Customer Focus Assessment Team that analyzes customer and market data to identify more effective ways to provide customer access, to determine customer satisfaction, and to build customer relationships. The team reviews the following measures to assess our existing approaches:
- Customer Count trends
- Market research data
- Competitive Analysis results
- Complaint Log entries
- MkBWA notes
- Product Sales Mix data

The team reviews the consistency and validity of the data with our listening methods, survey comments, industry and national restaurant trends, and local competitor strategies. It also benchmarks industry best practices and approaches for providing customer access, determining customer satisfaction, and

building customer relationships. Using the Continual Improvement Process (Figure 6), potential improvements to our existing customer/market focus processes are identified and reviewed by the Pal's Leadership Team to assess their capability of meeting the requirements of our changing business needs and strategies. Typical improvements include survey approaches, question details, service standards, ideas for customer/market focus process improvement, different market research methods (i.e., third parties), and sample sizes. For example, over the past several years both the timeliness and satisfaction of complaint handling have been improved through training and by empowering the staff to instantly resolve complaints with free product coupons, product replacement, and/or money reimbursement.

Our most recent improvement in customer access and relationship building has been achieved through the new Pal's web site, an improvement idea that came directly from evaluations of our customer relationship processes. Since its launch in October 1999 with 292,000 hits per month, activity on www.palsweb.com has increased to three million plus hits per month. This mechanism for providing customer access and building customer relationships has allowed us to develop an active database of 25,000 customers while increasing our top-line sales by three percent and producing a project return on investment of over five hundred percent. It also allows us to provide quick responses by a Leadership Team member for every customer communication. During our 6:00 a.m. to midnight schedule, a Leadership Team member answers each query within six hours, 365 days a year.

Pal's Complaint Handling Process is a long-standing, well-established part of our customer-focused culture. Our Operations Manual clearly states the way in which we conduct our business: "Every Pal's staff member has the authority to take corrective action when confronted with a customer complaint, whether in person or via telephone. The staff member who receives the complaint is empowered to replace the order and/or refund the customer's money. The complaint is reported to the owner/operator and entered on the Complaint Log."

The member of our staff that becomes aware of the complaint enters all formal and informal complaints

and comments in our Complaint Log. The customer's name, address, and telephone number (when available), and time of complaint are recorded in the log along with the nature of the complaint and the means of resolution. Each complaint is systematically coded to enable us to track the areas of our processes that need improvement. The owner/operator follows up the complaint by contacting the customer to ensure the complaint was satisfactorily resolved. Leadership Team members also randomly check with customers who have complained to determine if each individual complaint was handled in an expedient, professional, and thorough manner. Complaint data is reviewed for recurring trends at both the store and company levels. Root cause analysis is conducted on areas where the need for improvement is indicated.

By its nature, the fast food business requires fast resolution of complaints, so we empower our entire staff to handle them in the manner they feel is appropriate. In rare instances when we are unable to resolve a complaint instantly with our standard operating procedure, progressive levels of Pal's Leadership Team are quickly called upon to resolve the complaint. In our surveys, one hundred percent of those customers who made a complaint reported that they were fully satisfied with the manner and method in which it was resolved.

Customer Satisfaction Determination

Customer satisfaction levels are measured using data from various sources including Customer Transaction Counts, MkBWA, and market research. Customer dissatisfaction is evaluated through our Complaint Log data. MkBWA and industry studies allow us to validate the objectivity and results of the annual market research study. MkBWA provides us the opportunity to directly ask customers what they value and how Pal's products and services rank in each customer's value perception. These results are also used to determine and assess customer satisfaction and dissatisfaction. However, the most obvious way customers indicate their level of satisfaction is through their repeat business.

Future buying trends and referrals are addressed through MkBWA and market research. Questions are aimed at gauging the customer's current buying habits, the likelihood of those habits changing, and his/her willingness to recommend Pal's to a friend.

The answers to these questions are correlated to our current sales mix trend data to allow us to forecast future requirements. We thoroughly review the data generated from MkBWA, market research, and the Complaint Log looking for specific areas where improvement is needed. Then, we take the appropriate action to act on the opportunity.

Pal's uses three systematic tools to follow-up with customers on our product and service quality and recent transactions: Pal's web site, MkBWA, and the Complaint Log. As more and more customers obtain Internet access, Pal's website will become one of our most effective communication tools.

Since the majority of our customers live or work within a three-mile radius of a Pal's location, MkBWA is a useful tool for following-up on customer transactions. Owner/operators typically contact customers at their homes, place of business, or randomly while wandering around to question them about their opinion of our products and services.

MkBWA also provides the owner/operator with the opportunity to directly ask customers about their satisfaction levels with individual competitors as compared to Pal's and to seek reasons for the satisfaction ratings. This data is collected three times per year, and reported at both the store and company levels.

Pal's market research is conducted by an outside firm, which is hired for us by a third party so the researcher does not know they are working for Pal's. Using the same questionnaire form, this firm surveys both Pal's customers and those of our major individual competitors to determine satisfaction levels of products and services. Using the same questionnaire for both our customers and those of competitors ensures that the data collected is objective and can be easily compared.

Finally, Pal's cross-functional Customer Focus Assessment Team meets to analyze customer and market data for the purpose of identifying more effective ways to determine customer satisfaction.

INFORMATION AND ANALYSIS

Pal's Leadership Team has carefully designed a performance measurement and analysis system for the collection, integration, and analysis of information and data that feeds and interacts with our Strategic Planning, Continual Improvement, Benchmarking, and Management Review processes. Pal's Management Information System (Figure 8) is also used to guide the selection, gathering, integration, management, and effective use of information and data to support our key operational processes, action plans, and performance management system.

MEASUREMENT AND ANALYSIS OF ORGANIZATIONAL PERFORMANCE

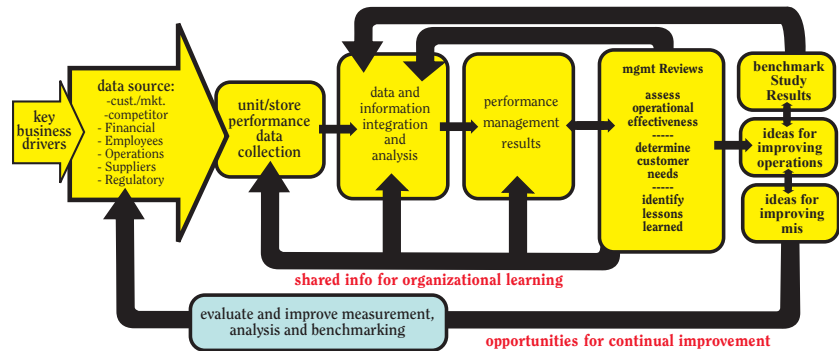Pal's Management Information System gathers and integrates data and information from multiple

Figure 8 Management Infomation System

sources (e.g., operations, customer listening/learning processes, market research, benchmarking studies, suppliers, regulatory agencies, and industry publications). Much of the data is gathered at its source (in the store) through our automated SysDine data collection, integration, and analysis system. SysDine generates store-level and company wide reports on sales, customer count, product mix, ideal food and material cost, and turnover rates. This data, which is readily available at each store, is reviewed and analyzed for use in support of daily operations.

Performance and capability data are easily integrated

Performance and capability data are easily integrated because each of our seventeen stores has a common core set of performance measures including customer-related, operational, human resource, competitive, and financial performance measures. Data for our company-wide balanced scorecard is gathered for analysis/review using standardized collection procedures and operational definitions.

SysDine automatically gathers financial and operational performance data at the store-level and consolidates it for use in overall organizational analysis and decision-making. We maintain a Balanced Scorecard of Core Performance Measures linked directly to our Key Business Drivers. These measures/indicators support the understanding, alignment, and improvement of overall company and operational excellence at all levels and in all parts of the organization. The balanced scorecard links in house performance measures and data charts for each Key Business Driver with the influencing key operational processes and strategic action plans.

Information Frequency Tables determine the specific store measures, the frequency of reporting, and the level and frequency of review. The balanced scorecard is used to identify needs for making improvements in key areas that drive our business to excellence and growth.

Pal's uses a Benchmarking Process (Figure 5) to determine best-of-class practices and performance and to set stretch goals to reach and exceed best-of-class performance levels. We select comparative data on the basis of its ability to tell us where we stand within our industry, within our market, and relative to selected benchmark companies (within and outside our industry).

During management reviews, the Leadership Team selects the measures or processes to be benchmarked using the Balanced Scorecard. Gaps with the highest potential gain are given the highest priority for more extensive benchmarking/comparison. Once performance gaps are targeted, benchmarking partners are selected using the following criteria:
• A winner of the Malcolm Baldrige NQA or state
• level Quality Award.

• An organization recognized in its industry as best-of-class through publications and industry
• level awards.
• An organization recognized by a significant group of customers as best-of-market as determined by internal surveys and listening tools.
• Outside of industry best-of-class as demonstrated through news articles, awards, and other types of recognition.

After benchmarking studies, the Leadership Team uses the steps of the Continual Improvement (Figure 6) and Communication/Feedback (Figure 7) processes to share the results with the entire organization. Using information about our partner's best-of-class performance areas and best-known methods, we develop stretch goals during management reviews and strategic planning sessions to push us toward high performance results. After we have analyzed and learned as much as possible from our benchmarking partner's processes and performance data, we use our Plan-Do-Study-Act (PDSA) piloting and continual improvement approach to incorporate any learning we gain into our own processes to produce equal or better results.

The selection and use of comparative information and data at Pal's are evaluated and improved by the Leadership Team, which performs an assessment after each benchmarking study by analyzing:
• Was our performance gap real and valid?
• Were we effective in getting acceptance of findings?
• Was our action plans on-target?
• Was our implementation and monitoring correct and focused?
• Were reviews and updates timely?

The Continual Improvement Process is used annually to assess the company, store, and core process operational information needs of senior leaders, owner/operators, assistant managers, staff, and suppliers/partners. The evaluation of data covers the effectiveness, timeliness, format, and understanding as it relates to the Key Business Drivers, measures, process measures, and on-line observations needed to meet current business needs and directions.

We also evaluate the overall information and data for

the Monthly Performance Report Package, on-site standardized scorecards in stores, and various daily measurement logs and checklists. All changes, updates, and additions of significant proportions are piloted using our "her" (assumes the role of championing a proposed idea, product, or service), "antagonist" (assumes the role of opposing the change), and "neutral" (neither champions or opposes a proposed idea, product, or service) store concept. The final results are reviewed to identify more effective data reports and procedures for data collection/update.

Performance Analysis

Our core information and analysis system is designed to support understanding of organizational performance by providing meaningful information for identifying cause-effect relationships among our different functional areas, processes, and performance measures. Our SysDine System also has an automated correlation routine available for key balanced scorecard data to support organizational performance reviews and strategic planning.

SysDine has the capability of performing correlation analyses at any time between any sets of measured data we collect to make a statistically sound assessment of coefficients of correlation. With this analytical tool, we are able to identify how changes in one performance area impact all other areas, make accurate performance projections, and understand how to optimize our management system. Each area of performance is analyzed to identify root cause, solve problems, capture improvements and learning to be shared, and take appropriate control actions.

Measured data at the store level (through the SysDine MIS) is plotted by the staff each shift to compare performance over time, to evaluate trends, and to assess actual performance versus standards/targets. Store-level data analyses are shared with staff members for their interpretation and use in identifying root causes, solving problems, capturing improvements, and taking appropriate control actions.

The results/findings of analysis and decision-making during monthly Management Reviews (e.g., identified root causes, improved procedures, control actions,

and new learnings) are communicated company-wide (and as appropriate to suppliers). Our complete information set (each store's specific operational results as well as those for the whole organization) is shared and reviewed with the entire staff at each store. After staff review and analysis (through our Communication/Feedback Process (Figure 7), the analyzed data and findings are then fed into the Business Excellence Process (Figure 1) and used to assess the need for change in current directions, strategies, and action plans by:

• Reassessing strategic goals
• Initiating any new benchmarking studies
• Considering new product/service/process ideas
• Pinpointing improved process standards and targets
• Re-prioritizing improvement projects
• Reallocating resources assigned to special projects

Information and analysis at Pal's is linked directly to our Key Business Drivers with a balanced scorecard of strategically important measures/indicators and readily available correlation tools. This approach enables us to achieve effective alignment of unit-level analysis in support of both unit-level and organizational-level action plans. Daily data analysis within the units drives actionable decision-making in support of both unit-level and organizational goals.

Our organizational goals to deliver consistent food taste and quality and to meet targeted food cost (to ensure a good profit margin) offer good examples of the way our approach to analysis supports daily operations and continual improvement throughout the Palís organization. Each of these goals has organizational-level and store-level measures, which are tracked and analyzed daily.

As our understanding of our operations and what actually drives food taste, quality, and cost has improved, we have improved our ability to accurately project performance results and identify what we need to do to achieve continuous and breakthrough improvements in performance.

INFORMATION MANAGEMENT

Data Availability

Key operational data from our SysDine system is posted on control charts and bulletin boards in our stores for reference in process management and

improvement. This information is readily accessible to every employee for review and analysis in support of daily operations. SysDine has digital sharing capabilities, which allows us to easily share data with suppliers, as we feel appropriate. Feedback collected from the stores is used to develop data reliability reports, which are transmitted to owner/operators to confirm the validity of the monthly performance reports.

Our participative approach to information and analysis (involving the staff and suppliers in data collection, data use, and data analysis) ensures the availability of data in our operations. This results in our data users (and suppliers) having a strong voice in the design and use of measured performance data.

We assure that data is reliable and accurate by using point-of-sale devices to enter most data, using error-proofing aids during the entry of manually entered data, and control charts to detect significant shifts that might be caused by incorrect data. To help ensure the overall data and information reliability, we utilize a third-party professional statistician to evaluate our selected data, how it's collected, and how it's used.

Pal's begins considering user requirements during the data and information selection stage with pre-defined user criteria. The data selection, collection, and reporting criteria include:
• Meets stakeholder requirements
• Links to our Key Business Drivers
• Provides a balanced scorecard
• Drives action
• Creates reliability
• Provides rapid access
• Allows rapid update
• Supports continual learning/improvement

Pal's Leadership Team members partner with three information technology firms to maintain awareness of currently available and emerging technologies and methods for making information and data more reliable, accurate, available, and usable. Input from these partners is considered during strategic planning where our data capabilities and requirements are aligned with our business objectives and action plans.

Hardware and Software Quality

At Pal's, we ensure that hardware and software are reliable and user friendly by using established standards and specifications in the selection of each of the computers and point-of-sale terminals we use in all operations. Our standards and specifications include strict criteria to review reliability and user friendliness. We also test new systems in advance (using our piloting approach) before installing them in all of our stores. During use, we measure and review mean time between failures on our systems components, and we routinely assess whether we have sufficient redundant backup.

To help assure the reliability of the software, we also have strict controls over who can make changes in the programs. Changes are tested and verified prior to being used on a production basis.

We review the way our systems perform within operations with the people who actually use the equipment and programs. We also keep abreast of technology changes through our partners, trade shows, and publications. During strategic planning we use this input to analyze how our systems are meeting all current user requirements. We also assess what is needed to support our strategic objectives and action plans.

Employees at Pal's are challenged to produce excellence in our operations (quality, speed, flexibility, service, and cost); to exhibit positive energy, well-being, and self-control; to make the right decision at the right time; and to be dedicated to continuous learning, development and growth.

WORK SYSTEMS

Pal's operates without the aid of a professional Human Resources staff. A set of Human Resource principles and policies are applied through defined processes for hiring, training, evaluation, compensation, benefits, and recognition by the owner/operator at each store.

At Pal's, we have focused our Human Resources strategies, plans, job/work designs, and HR processes for developing capabilities that support the key competitive performance expectations of our organization (speed, accuracy, quality, and hospitality). In our work environment, where our staff meets the customer face-to-face, we employ effective job designs and a flexible work organization to encourage cooperation, collaboration, individual initiative, responsibility, and innovation.

The staff at each Pal's facility is organized into process teams along the order-taking, processing, packaging, and order-completing line. Our staff must work with speed and flexibility while adhering to strict performance standards and maintaining a line of sight with the customer at order placement and product delivery. Work and job designs enable employees to exercise discretion, judgement, initiative, and decision-making while safely applying best business practices that meet expectations for excellence and customer delightment.

Although each staff level has clearly defined roles and responsibilities within our team structure (Figure 9), job flexibility is pervasive in our work designs and team assignments. As business levels fluctuate between high- and low-volume periods, we must continuously exercise flexibility in all of our production and service functions.

Through cross-training, staff members have a complete understanding of all production and service procedures and quality standards to allow smooth transition from work station to work station and cooperative, flexible responses to volume cycles and unplanned reassignments. Adjustments in assignments are made quickly when sickness, absenteeism, or unexpected variations in customer counts occur. Our emphasis on flexibility and cooperation also helps us keep transaction times fast and food quality consistent, because the Pal's staff does not have a "That's Not My Job" mentality.

Team	Nature	Membership	Focus/Process
Leadership Team	Permanent	Chairman, CEO, Owner/Operators	Leadership through Business Excellence
Process Team	Permanent	Operators, Assistant Managers, General Staff	On-line Quality Control & Communication/Feedback
C-F Assessment Team	Semi-Permanent	CEO, Operators, Assistant Managers	Self-Assessment & Benchmarking
C-F Improvement Team	Rotational	Pal's Employees, Stakeholders	Continual Improvement (PDSA Cycle)
In-Store Improvement Team	Temporary	Individual Store Employees	Continual Improvement (PDSA Cycle)
Pilot Team	Temporary	Individual Store Employees	Product/Service/Process Introduction

Figure 9 Pal's Team Structure

Pal's Communication/Feedback Process (Figure 7) and Business Excellence Process (Figure 1) are utilized by our Cross-Functional (C-F) and Process teams providing the basic foundation for formal and informal communication, cooperation, and knowledge/skill sharing throughout our business. We routinely collect and rapidly share ideas across our entire organization using e-mails, facsimiles, telephones, and pagers. This often produces rapid learning and decision-making that is shared company wide within the same day (or same hour).

Pal's senior leaders and owner/operators maintain a continuous organization-wide flow of information

Organizational Level	Responsibilities
General Staff	Process execution and analysis, problem solving, and process management
Assistant Managers	Team assignments, process execution and analysis, training, problem solving, and process improvement
Owner/Operator	Coaching, system execution and analysis, training, problem solving, and process improvement
Senior Leaders	Mentoring, vision, direction and key business driver execution, analysis, problem solving, and process improvement

Figure 10 Key Roles & Responsibilities

concerning daily operational and business issues. Any information (top-down, bottom-up, or store-to-store) that would be of immediate use or interest is quickly shared with all levels of the organization. Furthermore, each store owner/operator maintains a weekly Communication Log, which lists important information about sales, expenses, customer information, staff, products, service, equipment, suppliers, and improvement ideas. Each Monday morning, these logs are shared with all stores as appropriate.

Pal's work system allows owner/operators to lead and manage while working directly in the operations area motivating employees and encouraging their development. This regular one-on-one attention from owner/operators promotes rich communication that creates a common understanding and shared goals. Their mentoring, coupled with the developmental aspects of peer reviews and our training processes, effectively supports employees in developing and utilizing their full potential. Pal's also has a formal system for setting development objectives for each employee. These objectives are reviewed quarterly for progress.

Pal's staff members (from hourly worker to senior leader) have continual learning ingrained into their basic approach to performing work. They participate regularly on improvement and learning teams where brainstorming and consensus-building sessions enable them to identify problems or opportunities for improvements, analyze processes, and recommend solutions. This experience builds individual confidence, provides skills in problem solving and continual learning, and motivates employees to develop and utilize their full potential.

Most of our employees' ultimate careers are with other companies. Therefore, we strive to provide skills, knowledge, a principle-based mindset, and work habits required for producing excellence and practicing life-long learning. We find these capabilities readily transfer to other companies and position a Pal's graduate for success anywhere he/she chooses to pursue a longer-term career.

At Pal's, we provide an abundance of immediate, public, non-monetary recognition for staff contributions in support of employee development, customer satisfaction, continual improvement, and organizational learning. Through the "Caught Doing Good" (CDG) program, any staff member or team caught making an improved or exemplary job contribution in production or customer service is recognized on the spot with written public praise for the deed. A staff member, assistant manager, owner/ operator,

or senior leader (or even a customer or supplier) can document a CDG on a specially designed form and post it on the store bulletin board.

Semi-annual peer reviews are used at the store level as another tool for assessing individual performance and delivering recognition. Each staff member rates their co-workers' performance (work habits, attitude, adherence to process standards, job knowledge, and quality awareness). The owner/operator tabulates store results and reviews them with each staff member to identify strengths, opportunities for improvement, and a personalized development strategy/plan.

All staff members are eligible for wage increases at any time their individual efforts demonstrate effective application of important job skills or they are judged to be making a significant contribution to store results. Any time an owner/operator (based on predetermined standards) observes that an individual staff member's performance merits financial reward, a raise is given regardless of the amount of time that has passed since the last raise. This policy allows us to use direct compensation and recognition to reward staff members for contributions that support our customer and business focus.

The Leadership Team maintains succession plans at each level of the organization to serve as road maps for showing specifically who will succeed whom on a planned basis and in case of an immediate, unexpected need. Within a crew, employees advance on a planned basis to fill vital Process Team roles as they learn more job skills and operational positions. The most capable process team members are selected to back-up Assistant Managers and are put on a path of planned advancement to the assistant manager position. Assistant Managers are closely evaluated on their leadership skills, business management skills, and personal characteristics that are used to select candidates for owner/operator succession.

The training of future senior leaders (owner/operators who are identified to potentially fill the positions of President, COO and CEO) is a CEO-level responsibility. Specific performance criteria are used to evaluate candidates with input from all levels of the operation.

Owner/operators uses this same system to select new staff employees who demonstrate a predisposition for quick-service food work (i.e., the basic aptitude, characteristics, and talents necessary to excel in our unique work system and our particular work and job designs). By matching

existing talents and skills to our work and job designs, we have greatly improved human resource capabilities, reduced training cycle times, lowered turnover rate, and enhanced operational performance.

EMPLOYEE EDUCATION, TRAINING, AND DEVELOPMENT

Pal's Business Excellence Process (Figure 1) is based on the core concepts of the Malcolm Baldrige Criteria for Performance Excellence. These principles, which are a pervasive part of our culture, are used to achieve our action plans. They are integrated throughout our training for team skills, performance measurement, standards, continual improvement, problem solving, quality control, and benchmarking.

Pal's Training Program contains a variety of modules designed to support our strategic objectives, key action plans, and operational capabilities by addressing organizational and employee needs for development, learning, and career progression. As part of the Strategic Planning Process, the Leadership Team annually assesses training needs for strategic objectives (short-term and long-range) against our existing training program content in order to identify needs for new training modules/approaches and improved training effectiveness.

Individual training and personal development plans are established for all employees at all levels to ensure that knowledge and skills required for defined responsibilities at each position are acquired. Career plans are addressed for those individuals who express an interest in long-term career development, allowing them the opportunity to progress through general staff assignments to assistant manager to owner/ operator to senior leader.

All new training programs, modules, and tools are designed using inputs from all levels of the organization. This input is normally gathered and considered during deployment of strategic objectives by cross-functional teams assigned to implement training objectives identified in our HR Strategic Plan. In addition, training participants evaluate all existing training modules to evaluate effectiveness and identify improvement needs.

Pal's Training Program covers our entire key developmental and training needs. The basic performance need in our operations is to deliver quality, accuracy, and speed in a

responsive, friendly, flexible, professional, convenient, sanitary, and aesthetically pleasing manner to varied customer demands arriving at a rapid-fire pace. We have studied our work and job designs to identify the critical staff knowledge and skills that impact these requirements using employee input and measured/ observed performance results. In addition, we have clearly defined learning/capability objectives.

Our work system need for empowerment and decision-making is emphasized by our self-teach learning systems, our business management training for assistant managers that enables them to serve as teachers and mentors, our problem solving training module for the entire staff, and the ongoing process of transforming the owner/operator from controller to coach/mentor.

We have no full-time or even part-time training instructors. Instead, senior leaders, owner/operators, and assistant managers have a primary responsibility for staff training and building staff performance capabilities. In-store process experts also help deliver training. They are experienced in our operational procedures and have participated in defining Pal's strategic direction, values, beliefs, and principles.

Our self-teach and classroom training modules covering key operational skills for each support and production work station, use Pal's CEO, store owner/operators, assistant managers, and staff members to demonstrate the process. These training tools allow us to convey the necessary material in the shortest time possible while achieving standardization and knowledge retention.

If measured training results do not match observed on-the-job results, we seek input from all levels of the organization on how to design a more effective training, coaching, and assessment system through our then Continual Improvement (Figure 6) and Communication/Feedback (Figure 7) processes.

Our work system and operational structure are designed to provide close and frequent interaction among Leadership Team and Process Team members and to provide constant opportunities for verbal reinforcement. Owner/operators, assistant managers, and staff members work side-by-side within our process teams on the service line allowing close observance of job behaviors and performance levels. Feedback, coaching, and reinforcement of applied knowledge and skills are natural parts of work execution.

The Assistant Manager is a key resource for ongoing day-to-day reinforcement of staff member training on the job. He/she is usually promoted from within the store's general staff and has already acquired the required process execution and analysis and problem solving skills while serving as a general staff member

The Caught Doing Good program provides additional verbal and written reinforcement from process team members when an employee meets our quality standards and high performance expectations. A special effort is made in CDG to identify behaviors that are consistent with our training programs and that are clearly linked to desired performance results.

EMPLOYEE WELL-BEING AND SATISFACTION
Work Environment
Our concept of safety, health and well-being is one of prevention first (eliminating all possible causes of accidents or mishaps), then finding and eliminating causes of actual or possible accidents. Our entire staff participates in analyzing all accidents and implementing process improvements to eliminate known causes and prevent a particular accident from occurring or recurring. As a result of our prevention orientation, Pal's on-the-job injury/accident claims have declined seventy-five percent since 1992. (Figure 11)

Health, safety, and ergonomic standards/targets are used extensively in the design of our facilities to prevent deviation from standards and injuries.

Material Safety Data Sheets (MSDSs) are readily available to all staff (and regulatory personnel). A copy of our MSDS manual is kept at each store and contains a data sheet for each hazardous chemical used in the restaurant.

Restaurant Association (RA) inspectors, in-house inspectors, and our liability/risk insurance carrier conduct scheduled site visits to evaluate health and safety practices and to help drive facility improvements. RA and insurance inspections are conducted annually. The Leadership Team analyzes the data from these inspections, making any required or desirable changes for improvement through process analysis using our On-line Quality Control (Figure 4) and Continual Improvement (Figure 6) processes.

In-house health and safety inspections are conducted once a month in each store using the Food and Drug Administration (FDA) Food Service Sanitation Ordinance. Results are compiled and distributed to all stores within twenty-four hours of the inspection with any identified improvements applied in all stores. With a focus on continuous high-level results, we are able to give a consistently high performance on semi-annual state health inspections.

ServSafe is used to make our staff knowledgeable concerning proper food handling procedures, which aids in serving safe food to our customers and to our staff. All owner/operators, assistant managers, and key personnel are required to be certified, making it possible for at least one certified staff member to be on duty at all times.

EMPLOYEE SUPPORT & SATISFACTION
We determine the key factors that affect employee well-being, satisfaction, and motivation with the same studies used for identifying selection criteria for our Talent Based Hiring System. The criteria are evaluated and continually refined/improved with direct employee input gathered from our annual Staff Opinion (satisfaction) Survey and from our exit interview process. The main segmentation of this information for analysis is by function within the company.

Factors	Requirements	Measure	Target	Long-Term Goal
Gloves	Heat Resistant	Number of Burns	<12 per year	<6 per year
	Cut Resistant	Number of Cuts	<15 per year	<10 per year
Position Flexibility	Cross-Trained	Positions Certified	2 or more per mo.	All positions certified
Back Supports	Belts	Number of Back Strains	<6 per year	Zero

Figure 11 Health & Safety Requirements

At Pal's, we build and enhance our work climate for employee satisfaction, well-being, and motivation through a variety of company services, benefits, and actions. At the very foundation of our approach is our performance excellence policy. In our job market, pride in one's work is a major contributor to an employee's attitude about his/her job. By providing a work

system based on producing excellence in products and services, Pal's provides a strong beginning foundation for employee satisfaction, well-being, and motivation. In addition, our extensive use of the Communication/ Feedback Process (Figure 7) and our extensive use of cross-functional teams provide our employees a constant voice in the management of our business and a direct means for making meaningful contributions through work efforts.

We have policies covering sexual harassment, equal employment, and discrimination on the basis of race, culture, religion, and belief. At Pal's, we place a high value on diversity, because it presents a different perspective from which to learn and to assess opportunities for improvement. Our acceptance of people with diverse backgrounds extends across organizational lines to include customers and supplier/partners.

The annual Staff Opinion Survey is used to measure levels of employee satisfaction and to uncover any problems needing attention. Survey questions are designed by a cross-functional team of employees based on what is important to employee well being, satisfaction and motivation. The team evaluates and improves the survey annually by assessing the survey questions. Survey questions cover topics such as motivation, morale, excitement, training, product and service quality, and communication with no differentiation made for employee segments. Survey results are compiled at the company level for review in Leadership Team meetings. Individual store level results are reviewed with its respective owner/ operator analyzing the store-by-store results for potential areas for improvement.

Staff Turnover is an indicator of how motivated, challenged, well-trained, and satisfied our staff is. Turnover reports are analyzed each month (each store and overall organization). This information allows each store to monitor its effectiveness in managing turnover, determine if improvements are needed, and facilitate root-cause problem analysis. Pal's leads the industry in low staff turnover. The industry annual average in our market is over 300 percent while Pal's turnover rate for 2000 was 127 percent.

Our Human Resource strategy is based on creating stability in our workforce through work designs, a work environment and climate, and education, training and development processes that are focused on employee well-being, satisfaction, and motivation. Pal's strategic objectives always carefully consider the requirements of our people. We recognize them as the key to building capabilities, driving continual improvement, lowering costs, delighting customers, and increasing market share.

Through the disciplined customer-focus steps of the Business Excellence Process (Figure 1), Pal's processes are established in a way that creates meaningful interactions with our customers on an ongoing transaction-to-transaction, day-to-day basis. These frequent interactions allow us to really get to know our customers and understand their needs. Our Business Excellence approach to management and close customer relationships therefore automatically leads us to (1) carefully design our products and services, (2) continually measure and analyze our product and service delivery processes, and (3) ensure that our operations are meeting customer requirements each and every time a customer is served.

PRODUCT AND SERVICE PROCESSES

Design Processes

Pal's is careful to never introduce a new product or service without clear customer input, thorough market research, detailed design, extensive testing and careful analysis, and calculated rollout to ensure internal capability and customer acceptance. The Product/Service/Process Introduction Process (Figure 3), featuring review and feedback from all stakeholders, is Pal's systematic approach for developing new and modified products and services and their related production/delivery processes.

The Product/Service/Process Introduction Process begins with Defining a New Product/Service or Service. Ideas are generated from customer needs identified through customer listening strategies, market research, benchmarking, and communication/ feedback with all stakeholders. After determining customer needs and changing customer/market requirements through the listening/learning methods, the Leadership Team considers new or revised product and service ideas, asking the following questions to perform an Initial Design and Value-Added Analysis:
• Are our customer needs data and market trend data objective, valid, and credible?
• Is a specific product, service or process suggested?
• How will the product or service add value to all stakeholders?
• What new capabilities will we need?
• Will this change add value to all stakeholders?
• What similar or related things are our competitors doing?
• Do our suppliers have the capacity to support this new offering?
• Is the appropriate technology available?
• Does Pal's have the capability to fully support this new offering?

The Initial Design and Value-Added Analyses step of our introduction process is performed with a Desirability Feasibility Capability (DFC) approach focused not only on customer needs, but also on operational requirements. During the Leadership Review and Strategic Planning stage, we examine ways of incorporating new technology into our products, services, and processes to meet customer/ market needs and to develop operational capabilities.

In addition, during the Detailed Design step, we identify what and how new technology (equipment, systems, processes, and web-based technologies) will be incorporated into Pal's products, services and processes. We utilize our Benchmarking Process (Figure 5) and the PDSA Cycle of the Continual Improvement Process (Figure 6) to develop and/or refine our operational processes. Technology needs and availability are also investigated during the Pilot Testing step. If possible, we try to simply adapt an existing process to establish the delivery capability we will need. However, if new equipment is needed, we make sure during the design phase that it will fit into the space available, and is it cost effective.

Our entire introduction process (Figure 3) is focused on
(1) designing in quality as defined by the customer,
(2) maintaining or improving our critical cycle times for speed,
(3) testing new technologies and targeted outcomes, and
(4) assessing overall desirability, feasibility (cost and productivity), and capability of new designs. We also review and evaluate other factors such as cost control, storage requirements, effect on sales mix, and profitability.

The Detailed Design and Pilot Testing step of our introduction process is guided by customer-focused process design criteria and new or modified product/ service standards to ensure that all customer needs and design criteria are met and that all process capabilities are established. During the design process, we review and consider items to ensure all of our key operational performance requirements are addressed.

During the Pilot Testing step the new/adapted operational process is subjected to extensive piloting with a Standardize-Do-Study-Act Cycle (SDSA) approach to define/develop the final process design and capabilities. Process measures are evaluated versus standards and targets to identify and remove barriers to standardization and projected capabilities. Potential new offerings are tested with three pilots using a hero store (champions the proposed change), antagonist store (opposes the change), and neutral store (neither champions or opposes the change) piloting approach to ensure that capabilities are established to meet customer-focused process design criteria

and new or modified product/service standards. All pilot results are shared company-wide as data becomes available.

After initial design and testing, the new product/service design goes through extensive Leadership Review, Analysis and Strategic Fit, using the preliminary piloting/testing data. The results and data are evaluated by the Leadership Team to reach a consensus on a final plan for company-wide implementation. During implementation, we utilize process measures, MkBWA, and market research to ensure we are fulfilling process and customer requirements. Only after being thoroughly tested and after process capabilities are established and proven, do we develop strategic plans for introduction of the new product/service with a store-to-store rollout.

After each new product, service, or process launch, the Leadership Team performs a company-wide analysis by gathering and reviewing internal and external data concerning all identified potential improvements in our design/introduction process. These improvement ideas are assessed against existing introduction process checklists for training, materials, equipment, suppliers, production, and support requirements to evaluate the capability of our Product/Service/Process Introduction Process for providing a successful design.

PRODUCTION/DELIVERY PROCESSES

Pal's core operational processes include Order Taking, Cooking, Product Assembly, Cash Collection, and Order Delivery. Their associated customer requirements, which have been used in process design to ensure customer delightment, are outlined in Figure 12.

Our process teams use Pal's On-line Quality Control Process (Figure 4) to manage our production/delivery processes. Through our SDSA Cycle in Product/Service Introduction, we establish our capabilities to apply best-known operational and service practices without variation. Through On-line Quality Control, we maintain and continually improve process performance to ensure products and services meet customer and operational requirements.

Successful day-to-day operation of our key production/delivery processes to meet key performance requirements requires our employees to effectively apply the On-line Quality Control (SDSA) using a variety of well-designed, well-defined visual standards. Within Pal's high-speed work, our processes are running so rapidly that visual operational standards must be mentally ingrained to achieve compliance to standards

Visual standardization is a critical element of Pal's training and development program. We thoroughly train/coach our employees on our precise work procedures and process standards. This training focuses on developing a visual reference to verify product quality and usability. Operational procedures, service standards, and in-process control measures for all core processes, each product, and support services are carefully designed and documented in the Pal's Operations Manual.

Performance is also maintained through various process

Core Process	Principal Requirements
Order Taking	Accurate, Fast, Friendly
Cooking	Proper Temperature
Product Assembly	• Proper Sequence, Sanitary • Correct Ingredients and Amounts • Speed • Proper Temperature, Neat
Cash Collection	Accurate, Fast, Friendly
Order Delivery	Accurate, Fast, Friendly
Slicing	Cut/Size Freshness/Color
Chili Preparation	Proper Temperature Quantity, Freshness
Ham/ Chicken Preparation	Proper Temperature Quantity, Freshness

Figure 12 Pal's Core Processes & Principal Requirements

automation and measurement components featuring precise calibration capabilities to minimize process variation for critical operational standards. Preventive maintenance is used to ensure accuracy of our in-process measurement systems.

A final component of the Pal's system of day-to-day operation to meet key performance requirements is our crisis plan. We have documented standard procedures for dealing with adverse

situations, which occasionally (and potentially will) occur in the course of doing business such as power outage, water outage, serious employee illness/injury, or customer emergency. Our crisis plans (in conjunction with our empowered staff trained to operate in a manner of on-line self-control) allow us to meet performance requirements and customer needs effectively in all situations.

Employees are also trained to analyze results versus process standards and measures. They are given the authority to take action, even if the action is to recognize problems, search for root cause, take compensating actions, and resolve problems in whatever manner seems appropriate.

Pal's inspection, testing, and auditing costs are kept to a minimum by the way we design our work systems and the way we train and empower our staff. In our work systems, all staff members are able to assess the operation they are performing and are empowered with the authority to take any action necessary to ensure that products delivered to our customers meet or exceed customer requirements. This approach, coupled with our introduction process (Figure 3) to design in quality on the front-end, and our flat organizational structure produces systems that deliver the correct product and service without unnecessary inspection, testing, and auditing.

Pal's Quality Control, Continual Improvement, and Benchmarking processes are all key management components that allow us to evaluate and improve our core processes to achieve better performance, improved product/service designs, improved processes, and reduced cycle times. Process teams evaluate results from automated control systems, personal on-line observations, and control charts to identify improvement opportunities for core and specific product/service processes. We use root cause analysis to pinpoint common barriers to consistent compliance with process standards. Problem solving determines how to remove barriers and reduce variability around established targets.

The Continual Improvement Process (Figure 6) is used to identify, prioritize, plan, and execute improvements. Its use is initiated within individual stores by process teams and company-wide by the Leadership Team. Process teams utilize long-term results from automated control systems, personal observations, and control charts to assess needs for improvement. They appoint in-store improvement teams to apply the Plan-Do-Study-Act (PDSA) Cycle and propose an improved product, service, or process design. Process teams gather internal customer data through constant day-to-day interaction among employees working side-by-side on the line. The data is used to evaluate the need for improved process control and standardization. If any problems with a process or service are clearly identified, the

information is shared company-wide via the Communication Logs.

Using the Benchmarking Process (Figure 5), we obtain information on the best performing companies in our industry and market by observing direct competitors and sharing findings from formal benchmarking studies. To assist us in our process improvement efforts, we look inside and outside our industry for best-of-class performance and best-known methods for use in process improvement. We utilize restaurant industry research data from trade associations, literary searches, and the Internet.

BUSINESS PROCESSES

Pal's Key Business Processes (Figure 13) include Supply Chain Management, Property Acquisition, Construction, and Marketing and Advertising.

The Leadership Team follows the steps of the Product/Service/Process Introduction Process (Figure 3) to define the key requirements for our business processes. The team specifically reviews the process, obtains input from process users, and specifies requirements for meeting business needs. Additional input on requirement definitions comes from our benchmarking with other companies.

Introduction Process (Figure 3), we design our business processes with the same rigor we use to design our core product and service processes. Careful review and analysis is used to design business processes and to select good suppliers/partners to help meet overall performance requirements. We then monitor supplier performance (whether internal or external) against our key requirements to make sure operational requirements are being met. Figure 13 outlines the principal performance requirements for supplier/partner selection and for evaluating their performance.

Business Process	Key Requirement	Key Measure
Supply Chain Management	Reasonable Price	Food Cost
	Order Accuracy	Survey Rating
Property Acquisition	Sales Potential	Sales
	Within Budget	Cost
Construction	On time	Opening Date
	Within Budget	Cost
Marketing & Advertising	Clear Message	Focus Group Rating
	Brand Recognition	Market Share

Figure 13 Pal's Key Business Processes

Measure	Principal Requirement
Product Quality	Per Specifications
Price	Best for Volume Level
On-Time Delivery	< 3% Late Deliveries
Fill Rate	100%
Product Temperature	Within HACCP Guidelines
Product Code Dates	100% in Date

Figure 14 Principle Supplier/Partner Performance Requirements

The key performance measures/indicators for Pal's business processes are shown in Figure 14. Process data is the predominant source of information for evaluation for control and improvement. However, we also use the Communication/Feedback Process (Figure 7) to obtain additional feedback data from all stakeholders on process results. Deviations from targets, standards and requirements found during performance and progress reviews are quickly identified and remedied.

The overall costs associated with inspections, tests, and audits for our supply chain management process is minimized by maintaining only a few long-term, core suppliers. In our other business processes, we minimize these costs by well thought-out process designs and by training and empowering our process operators.

Support Process	Principal Requirements
Accounting/Finance	Accurate, Reliable, Rapid Turnaround
Human Resources (hiring, training, evaluation, compensation/payroll, benefits, and recognition)	Fully staffed, Low Turnover, Injury-free
Maintenance (repair, calibration, PM)	Reliability, Quick Response, Minimum Cost
Mgmt. Info. System	Accurate, Rapid Access
Ordering	Right Product, Right Quantity, Delivery on time
Stocking	No Stock-outs, Organized, Fresh

Figure 15 Pal's Support Processes & Principal Requirements

Pal's On-line Quality Control, Continual Improvement, and Benchmarking processes are used to continually evaluate and improve our business process capabilities. The same approach outlined in is applied to our business processes.

SUPPORT PROCESSES

Pal's key support processes and their performance requirements are defined in Figure 15.

Leadership Team members define key requirements for administrative support processes with input from staff members who utilize the process. We often use benchmarking and input from outside professional experts to assess our definitions of requirements and to offer suggestions for policies, administrative procedures, process designs, and process controls.

We use the same approach and same attention to detail in our design and performance of support processes that we use for production and delivery processes. Support processes are often designed concurrently with core process designs as an integral part of the new product/service design phase of our Product/Service/Process Introduction Process.

The Leadership Team appoints a C-F process design team to apply our Product/Service/Process Introduction Process. During design, they flowchart how the successful support process should function and develop an operational plan for it. The Leadership Team reviews the flowchart and plan during this pre-design planning phase to ensure that key requirements for all processes (core, business, and support processes) are identified and properly considered.

The key performance measures/indicators for control and improvement of our support process include:
• P&L Statement Turn-around Time (Accounting),
• percent Staff Turnover (Human Resources),
• Sales Per Labor Hour (Human Resources),
• Injury-free Hours Worked (Human Resources),
• Repair Cost (Maintenance),
• Supplier Fill Rate (Ordering)
• On-time Deliveries (Ordering), and
• HACCP Temperatures (Stocking).

Pal's On-line Quality Control Process (Figure 4) is applied to support processes with the same level of discipline as for core processes in order to build our capabilities for applying best-known practices without variation. On-line quality control methods employed by our empowered process team members operating in a mode of self-control are the primary means used to manage all of our support processes.

Pal's inspection, testing, and auditing costs are kept to a minimum for support processes by the way we design our work systems and the way we train and empower our staff.

As with core processes, the Pal's On-line Quality Control Process, Continual Improvement Process, and Benchmarking Process are all key process management components used to evaluate and improve our support processes to achieve better performance, improved product/service designs, improved core process performance, and reduced cycle times. The same approach is applied for improving support processes and sharing/standardizing improvements across the Pal's organization. Pal's success can be measured in many ways to reflect excellence, customer-focus, citizenship, and world-class organizational effectiveness and business results. Pal's is achieving a leadership position in the fast food market by modeling business success produced through a management process designed to align our operations with customer-driven expectations.

CUSTOMER FOCUSED RESULTS

In the fast food business in our market region, no one listens to the customer with as many tools as Pal's. Now one understands the customer as well as we do, and no one comes as close to meeting their needs. As a result, Pal's is the best-in-market performer for Customer Focused results.
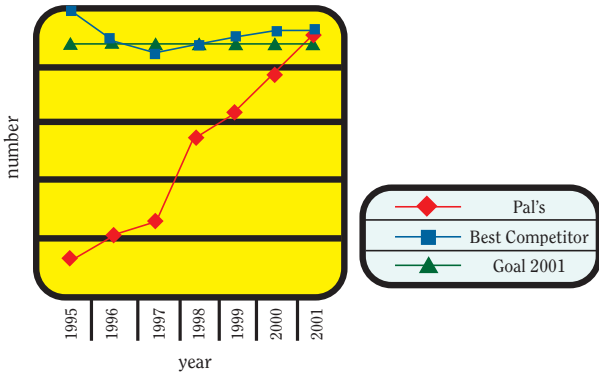

Figure 16 Customer Counts

Pal's Customer Counts data shows steady growth at healthy rates.

Superior satisfaction is also reflected in our low level of customer complaints - less than 0.4 per year per 1000 customers.
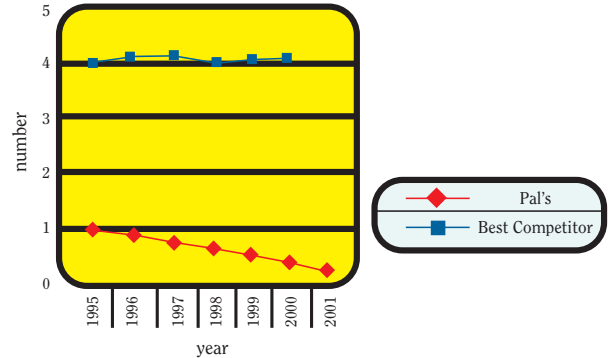

Figure 17 Complaint per 1000 Customers

Our Customer Survey and Market Research results show that regional fast food customers have consistently rated us better than the best competitor over the past five years in areas of product accuracy, quality and service (speed), which are the primary determinants of customer satisfaction.

Lower is Better	1995	1996	1997	1998	1999	2000	2001
Quality	0.17	0.15	0.15	0.13	0.10	0.07	0.07
Service	0.04	0.03	0.03	0.03	0.02	0.02	0.01
Accuracy	0.66	0.62	0.57	0.45	0.37	0.34	0.26
Pal's Customer Satisfaction							
Higher is Better	1995	1996	1997	1998	1999	2000	2001
Quality	91.0	94.1	93.7	94.2	94.5	95.2	95.8
Service	93.2	95.2	95.1	94.6	95.6	95.9	96.4
Accuracy	86.1	91.4	91.3	94.5	95.2	95.7	95.7

Figure 18 Customer Focused Data
Complaints per 1000 Customers

The rapid acceptance, popularity, and growth of our web site, www.palsweb.com, is another strong indicator of customer loyalty to the Pal's brand.

Research results for product and service performance clearly show that regional fast food customers are satisfied with Pal's products and service.
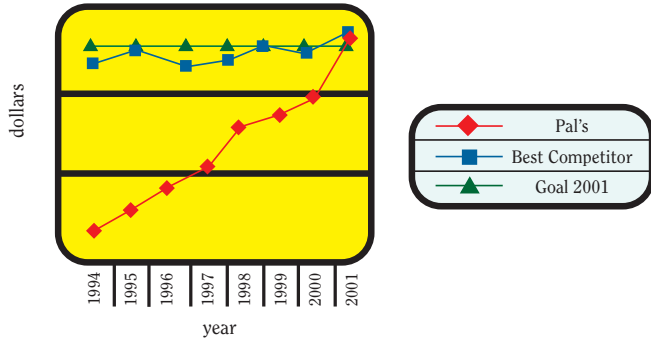
FINANCIAL AND MARKET RESULTS

Figure 19 Sales Growth

Our financial and market results show that Pal's is quickly becoming the regional fast food leader in key financial and marketplace performance. A few percentage points in profit make a huge difference in a company's ability to stay in business and compete effectively.
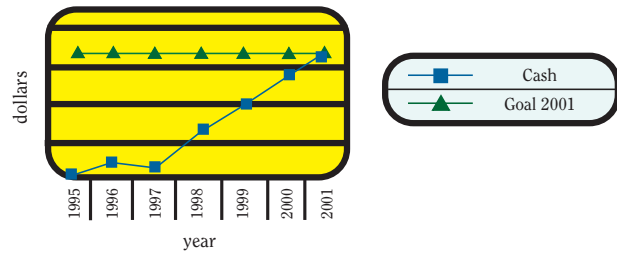

Figure 20 Cash Flow

Pal's strong positive trend in Cash Flow reflects growth in financial health. This is critical in being able to deliver positive financial returns and economic value to our stakeholders.
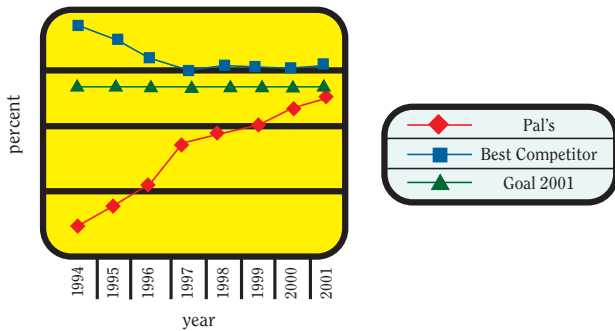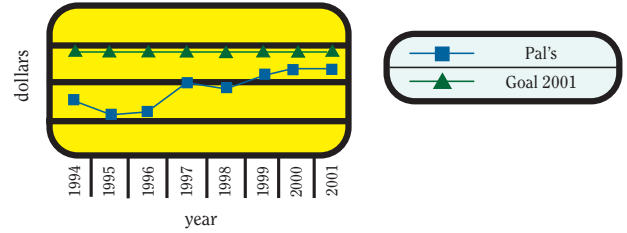

Figure 21 Market Share
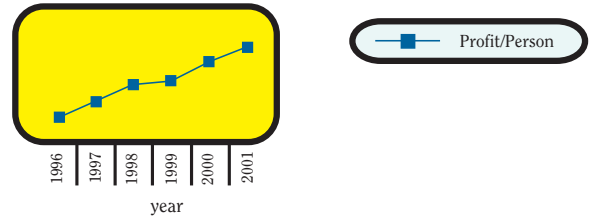

Figure 22 Profit Percentage
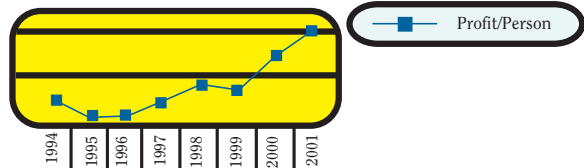

Figure 23 Profit Person

Figure 24 Pal's ROA

Marketplace performance is measured and evaluated with indicators for Sales Growth and Market Share. Our performance levels and trends in these areas indicate that we are in a position to assume leadership in marketplace performance.

With the strongest market share growth trend in our region, along with continuing improvements in Profit Percentage, Profit/Person, and ROA, we realistically expect to continue to increase our share of the market.
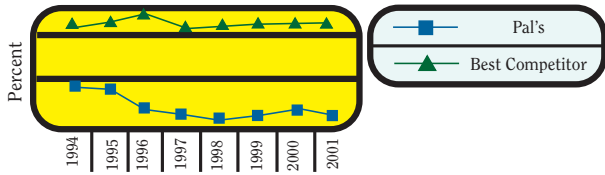
HUMAN RESOURCE RESULTS

Figure 25 Turnover

Staff Turnover, Pal's key quantitative measure of employee satisfaction, shows that our employee retention levels are at an all time best for Pal's and superior to any competitor in our market.

Furthermore, our group of store operators and senior leaders has lost only three individuals in the last twenty years, which gives us a major advantage in leadership continuity over our competitors.
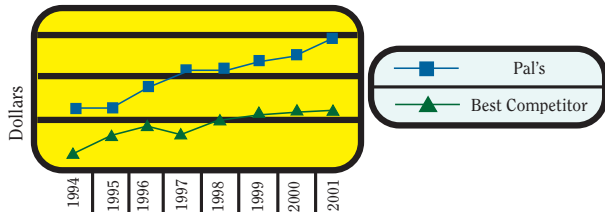

Figure 26 Sales per Labor Hour (SPLH)

Our primary measure of work system performance is Staff Productivity or Sales per Labor Hour. Our improving productivity trend reflects the effectiveness of our selection, hiring, training, and work designs. Our low turnover rate and more experienced staff further enhance productivity.

ORGANIZATIONAL EFFECTIVENESS RESULTS

We evaluate organizational effectiveness at Pal's with measures for food quality, customer service (accuracy and speed), food safety, and cost of operations.

Cost of operations has two major determinants - Food Cost and Labor Costs. Our food costs (expressed as a percentage of sales) are influenced by closely managed purchasing, tight inventory controls, strict operational standards, aggressive minimization efforts, and closely managed vendor relations.

Labor costs are also evaluated in terms of our staff productivity measure and Labor as a % of Sales.

Food Safety is evaluated by State Health Inspection Scores, which is a primary indicator of our compliance with sanitation requirements established by Federal and State Regulations. Pal's consistently receives the highest Health Inspection Scores in our market.

Pal's leadership role in our market has been achieved by focusing on satisfying customers through the principles of performance excellence. We have produced dominant business results with a capable and committed workforce, a supportive supplier network, and capable and efficient operations that deliver quality and speed at a reasonable cost.

Scale 1-5 Higher is Better	1995	1996	1997	1998	1999	2000	2001
Communication	3.84	3.87	3.77	4.11	4.09	4.22	4.26
Training	3.97	3.95	3.95	4.20	4.15	4.39	4.44
Motivation	3.55	3.65	3.70	3.92	3.98	4.16	4.26
Excitement	3.16	3.55	3.47	3.56	3.66	4.21	4.12
Harmony	3.61	3.79	3.64	3.86	3.86	4.04	4.13
Management's ability			3.63	4.09	3.98	4.27	4.33
Hours Worked With No Accidents							
Higher is Better	1995	1996	1997	1998	1999	2000	2001
Cuts	12,214	17,611	26,744	24,685	38,826	61,604	-
Burns	20,938	32,874	39,088	49,371	64,711	151,234	-
Lifting	136,571	123,279	125,481	135,772	182,400	298,547	-
Number of Accidents							
Lower is Better	1995	1996	1997	1998	1999	2000	2001
Cuts	26	19	13	17	10	7	3
Burns	15	10	9	8	6	3	3
Lifting	3	3	3	3	2	2	1

Figure 27 H/R Data Staff Surveys