Growth has been on the menu ever since Bill Darden opened his first Red Lobster restaurant in Florida in 1968. The combination of fresh seafood and casual dining caught on quickly—and quickly caught the eye of General Mills, which bought the fast-growing company in 1970. In 1995, General Mills renamed the company after its founder and spun it off in a public offering. Once it went public, Darden Restaurants used the proceeds to chart a new financial path to long-term growth.

Today, Darden employs 180,000 people and serves more than 400 million meals each year across North America in 1,900 casual, full-service restaurants. The company’s seven restaurant brands are: Red Lobster (seafood), Olive Garden (Italian menu), LongHorn Steakhouse (Western-theme steaks and more), The Capital Grille (premium steak house), Bahama Breeze (Caribbean-theme casual dining), Seasons 52 (fresh-grilled foods), and Eddie V’s (prime seafood and steaks). In all, Darden’s yearly revenue tops $7.5 billion.

Healthy cash flow is definitely on the menu. The average Capital Grille unit rings up $6.5 million in annual sales, the average Olive Garden rings up $4.8 million in annual sales, the average Red Lobster rings up $3.6 million, and the average LongHorn Steakhouse rings up $2.9 million. With the cash generated from restaurant revenue, Darden has been reinvesting in its businesses by opening new units, remodeling existing units, and greening its restaurants with eco-friendly materials and energy-saving touches. Because of its size, it can take advantage of economies of scale in buying foods and beverages from global sources, which in turn helps keep costs under control and supports good profit margins.

Over the years, the company has fueled its continued expansion with a combination of debt and equity. The company can draw on a revolving credit agreement of almost $500 million, which helps smooth out the financial bumps of its seasonal business. Typically, Darden’s revenue spikes in the spring and descends to a low point in the fall, although sales are definitely affected by weather conditions, economic circumstances, holidays, and other uncontrollable elements. Having revolving credit in place provides the flexibility to borrow if and when needed.

Darden has also raised money by issuing corporate bonds, some of which mature in 5 years, some in 10 years, some in 20 years, and some with even longer maturities. Twice a year, the company pays interest to its bondholders. On the equity side, Darden’s common stock trades on the New York Stock Exchange, and it pays cash dividends to its shareholders. Its cash flow has been so strong, in fact, that Darden increased its dividend not long ago and has focused on paying down debt even as it invests in business.

Looking ahead, Darden expects to continue its growth spurt, despite an unpredictable economy and intense competition from big names in fast food and casual dining. It avoided the heavy, broad-based discounting that some chains used to attract customers during the recent economic crisis. Instead, it used occasional, selective price promotions to heighten its message of affordability. The company’s financial stability means that it has money available for making acquisitions, building new restaurants, developing new menu items, training new staff members, and launching new advertising campaigns.

Within the past decade, Darden has used its financial strength to buy and expand the Capital Grill and LongHorn Steakhouse restaurant chains. And Darden acquired the Eddie V’s and Wildfish Seafood Grill restaurant chain in 2011. It is also responding to increased consumer interest in healthy dining by opening more of its Seasons 52 restaurants, which feature only steamed, baked, or grilled dishes. As its name implies, Seasons 52 adds new menu items regularly, depending on what’s in season. The ever-changing menu brings customers back again and again to try seasonal specialties and enjoy old favorites.

Sometimes Darden closes underperforming units or sells entire chains so that it can put its money and management attention into other growth opportunities. A few years ago, Darden divested its Smokey Bones Barbecue & Grill chain after determining that this restaurant concept did not have the potential for nationwide expansion and profit potential that Darden required. What will Darden do next in its quest for profitable, long-term growth?

Questions
1. Darden is spending heavily to upgrade the interior of many of its Red Lobster and LongHorn Steakhouse restaurants. How would you suggest that the company measure the financial results of this remodeling program?
2. Why would Darden issue corporate bonds with maturities of 5, 10, 20 years or even longer maturities?
3. If Darden needs cash to remodel existing restaurants and open new restaurants, as well as to pay down debt, why would it increase its cash dividend that is paid to its stockholders?
SOCIAL MEDIA EXERCISE
Turbo Tax is probably one of the best-known tax preparation services in the world. One of the reasons for its popularity is that it provides tax software that people really need. Another reason for its popularity is the company’s use of social media through various platforms that include building an online community of users, using Twitter, and developing a YouTube channel. Each video on the TurboTax channel illustrates how a company can use social media to provide valuable information to customers. You can check out Turbo Tax videos at www.youtube.com/user/TurboTax/videos.
1. Visit the YouTube channel for Turbo Tax (www.youtube.com/user/TurboTax/videos). Do you think social media is an effective method of obtaining the tax information you might need to prepare your taxes?
2. Can you think of other companies that could use videos on a YouTube channel to share information that their customers could use?

JOURNALING FOR SUCCESS
Because many people spend more than they make on a regular basis, they often use credit cards to make routine daily purchases. As a result, the amount they owe on credit cards increases each month and there is no money left to begin a savings or investment program. This exercise will help you to understand (1) how you manage your credit cards and (2) what steps you can take to improve your personal finances.

Assignment
1. How many credit cards do you have?
2. Based on the information on your monthly credit card statements, what types of credit card purchases do you make?
3. Do you pay your balance in full each month or make minimum payments on your credit cards?
4. Most experts recommend that you have one or two credit cards that you use only if you are in an emergency situation. The experts also recommend that you avoid using credit cards to make inexpensive purchases on a daily basis. Finally, the experts recommend that you pay your balance in full each month.
5. Based on the preceding information, what steps can you take to better manage your personal finances?

DEVELOPING CRITICAL-THINKING SKILLS
Financial management involves preparing a plan for obtaining and using the money needed to accomplish a firm’s goals and objectives. To accomplish your own goals and objectives, you should prepare a personal financial plan. You must determine what is important in your life and what you want to accomplish, budget the amount of money required to obtain your goals, and identify sources for acquiring the funds. You should monitor and evaluate the results regularly and make changes when necessary.

Assignment
1. Using the three steps shown in Figure 19.3, prepare a personal financial plan.
2. Prepare a three-column table to display your plan.
   a. In column 1, list at least two goals or objectives under each of the following areas: Financial (savings, investments, retirement), Education (training, degrees, certificates), Career (position, industry, location), and Family (children, home, education, trips, entertainment).
   b. In column 2, list the amount of money it will take to accomplish your goals or objectives.
   c. In column 3, identify the sources of funds for each goal or objective.
3. Describe what you learned from doing this exercise in a comments section at the bottom of the table.

BUILDING TEAM SKILLS
Suppose that for the past three years you have been repairing lawn mowers in your garage. Your business has grown steadily, and you recently hired two part-time workers. Your garage is no longer adequate for your business; it is also in violation of the city code, and you have already been fined for noncompliance. You have decided that it is time to find another location for your shop and that it also would be a good time to expand your business. If the business continues to grow in the new location, you plan to hire a full-time employee to repair small appliances. You are concerned, however, about how you will get the money to move your shop and get it established in a new location.

Assignment
1. With all class members participating, use brainstorming to identify the following:
   a. The funds you will need to accomplish your business goals
   b. The sources of short-term financing available to you
   c. Problems that might prevent you from getting a short-term loan
   d. How you will repay the money if you get a loan
2. Have a classmate write the ideas on the board.
3. Discuss how you can overcome any problems that might hamper your current chances of getting a loan and how your business can improve its chances of securing short-term loans in the future.
4. Summarize what you learned from participating in this exercise.
Financial managers are responsible for determining the best way to raise funds, for ensuring that the funds are used to accomplish their firm’s goals and objectives, and for developing and implementing their firm’s financial plan. Their decisions have a direct impact on the firm’s level of success.

Assignment
1. Investigate the job of financial manager by searching the library or Internet, by interviewing a financial manager, or both.

2. Find answers to the following questions:
   a. What skills do financial managers need?
   b. How much education is required?
   c. What is the starting salary? Top salary?
   d. What will the job of financial manager be like in the future?
   e. What opportunities are available?
   f. What types of firms are most likely to hire financial managers? What is the employment potential?
3. Prepare a report on your findings.

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ENDNOTES