

Cat & Joe's Pig Rig: Should We Stay or Should We Go?

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INTRODUCTION

When the invitation arrived, Joe Thompson and Cathy (Cat) Obertowitch were not sure what to do. The event looked promising, but the last time they agreed to attend a similar special event, they had barely broke even. They had left the event reminding themselves, “We don’t need to say ‘yes’ to every opportunity.”

Joe and Cat were an engaged couple who had been running their food truck, Cat & Joe’s Pig Rig, for several months. Their truck specialized in pulled pork and southern-style barbecue. “Slow and low!” was the cooking philosophy of the food truck, which was based in Kamloops, British Columbia, Canada, a city of 100,000. Business had been brisk, the truck was outperforming projections, and their customer base was growing. They had also supplemented their day-to-day business by attending local events and doing catering jobs.

The couple had just received a request to bring their truck to an event called “Bullarama”—a rodeo held in the nearby town of Barriere, located 70 kilometers north of Kamloops (Exhibit 1). Bullarama looked great on paper: the promoters noted that 700 attendees were expected, Cat & Joe’s Pig Rig would be the only food option, and rodeo fans would be a great market for the company’s southern-style barbecue. Tempering their enthusiasm for the event were a few mitigating factors: (1) event promoters tended to be optimistic with promises and projections, (2) the 70-kilometer drive to Barriere added a number of costs that may be significant, and (3) perhaps most importantly,

business was good in Kamloops, and if they did the Bullarama event, they would forgo one day’s revenues in their home market. The couple couldn’t be sure of what to do until they fully analyzed the opportunity.

CAT AND JOE

Cat and Joe came from the neighbouring towns of Smithers and Houston in northern British Columbia. They knew each other growing up but never connected beyond the level of acquaintances. Cat recalled their relationship as teens: “I was interested in Joe, and Joe was interested in hockey.” The two lost touch, married other people, and started their own families. Cat had one daughter and two sons, while Joe had two sons of his own.

Cat went to school for nursing and referred to her career as that of a “gypsy nurse” working for a wide variety of organizations. Her most recent jobs included a role at a pregnancy outreach center and an instructional post in the nursing program at the local university in Kamloops. Joe’s career had been more stable. After a short time as a cook in a restaurant, he found a permanent career behind the wheel of a logging truck, first in northern British Columbia then moving to the city of Merritt, 100 kilometers south of Kamloops.

Cat and Joe’s marriages dissolved. Eventually, the newly single acquaintances reconnected on Facebook when the social media site suggested that they might know each other. The two began dating, and on one of their earliest dates, Joe cooked for Cat. On that night, Joe’s pulled pork sandwich proved to be his way into Cat’s heart. She was surprised to

learn that one of Joe's hobbies was smoking meat. After high school, as soon as Joe could afford a smoker, he bought one, and in the two decades since, he had become an expert in the art of smoking and slow-cooking beef and pork. He also enjoyed making his own rubs and sauces.

As their relationship became more serious, Joe moved from Merritt to Kamloops to live with Cat. Joe's workplace was still based an hour away in Merritt, leaving him little time for family after the commute and his long days driving the logging truck. Neither Joe nor Cat was happy with this arrangement, with Joe spending a lot more time on the road than at home. Something had to give, so Joe began to look for new opportunities closer to Kamloops.

It was at a potluck dinner that Cat and Joe got the inspiration for their business. Joe brought a dish from his smoker, and it was a hit. Two of their friends who attended the party, Cyé Delaney and Denise Leigh, were owner-operators of a popular local tattoo parlour. These experienced entrepreneurs suggested that Joe's pork was so good that he and Cat had a legitimate business opportunity. They agreed to give Cat and Joe advice if needed and put the couple in touch with an angel investor.

When it came time to meet the potential investor, both Cat and Joe were nervous. They wanted the opportunity badly, but it was one thing to impress friends at a potluck and another thing entirely to impress a stranger—and to impress him so much that he would be willing to invest tens of thousands of dollars in a business concept proposed by two inexperienced entrepreneurs. Joe and Cat brought the possible investor a sample of the items they planned to include on the menu, and perhaps more importantly, they also brought a conservative, but thorough, business plan. The angel investor was so excited by the food and the business plan that he wrote them a check on the spot. With that meeting, Cat & Joe's Pig Rig was born.

FOOD TRUCKS

During this time, food trucks were an emerging culinary trend in Canada and around the world. While mobile concessions and canteens had existed for decades, there was a new wave of food trucks, which focused on bringing higher-end fare to the marketplace. The old model for food trucks often involved selling frozen or nonperishable products, whereas the new model relied on technological improvements to miniaturize and mobilize full, gourmet kitchens, enabling vendors to offer a much broader array of dishes.

As of 2014, Vancouver, British Columbia, had more than 100 active food trucks selling all types of dishes, including Indian, Korean, Japanese, seafood, Mexican, barbecue, crepes, Ukrainian, and more.²

Cat and Joe's pulled pork concept would be the first food truck attempted in the city of Kamloops. After meeting with local politicians and agreeing to some limitations³, Cat & Joe's Pig Rig was given the city's blessing to begin operating. They purchased and outfitted their truck and opened for business (Exhibit 2).

THE BUSINESS

Cat & Joe's Pig Rig saw immediate success. In the early months, the business outperformed its revenue and profit projections. But Cat and Joe did not wish to rest on their laurels. They knew that they were enjoying early success not only because they offered a good product but also because the food truck was a novelty in Kamloops. They were pleased to have a first-mover advantage, but they knew it would not last forever. They needed to continue to develop a loyal customer base and were also working hard to expand the event and private catering side of their business.

The food truck's signature dish was its "Ripped Pig" pulled pork sandwich.⁴ The sandwich came in a combo with coleslaw, baked beans, and French fries and was priced at \$12. The company had variable costs, which included the cost of the food, clamshell packaging, and variable overhead. Variable costs were 40% of the company's revenues. There was no labor cost as neither Joe nor Cat drew a wage or salary.

Fixed costs included items such as gas for the generator, maintenance, business licenses, and truck depreciation. These costs totaled \$10,000 per year. The operational year for the food truck was 180 days. Corporate income tax rates for small businesses in British Columbia were approximately 20% around that time.

The pork needed to be put in the smoker at least 12 hours in advance of service, which created two challenges for Joe. First, it meant that he worked virtually 24 hours a day. Operating the truck meant setting up, serving, and cleaning up from 10 a.m. to 7 p.m. But when service was over, Joe's day was not done. He needed to smoke the pork overnight—which involved putting the pork in the smoker late in the evening (with just the right blend of wood chips), and waking up to tend to the meat in two-hour intervals throughout the night, spraying the meat to ensure it would have the right consistency and tender quality when it was served the next day. Although it was exhausting work, Joe was willing; he had a great work ethic, he was his own boss, and smoking meat was one of his passions.

The second challenge presented by the 12-hour cooking requirement was determining how much pork to smoke—too much or too little could be a disaster. If Joe did not prepare enough meat the night before, he could not simply go out and buy more if they were having an unusually busy day. Failure to project high demand meant the Pig Rig would be sold out for the day, and Joe and Cat would need to close the truck early, leaving customers unsatisfied. If Joe prepared too much meat, and they didn't sell out, the extra meat would be donated to a local soup kitchen. While Cat and Joe felt good about doing something generous in their community, donating pork meant inefficiency and significantly reduced their profits.

Forecasting poorly was a huge risk for their business, and mistakes were costly. Fortunately, experience meant that Cat and Joe were getting better at predicting how many customers they could expect in a day. On a typical day, Cat and Joe served between 75 and 125 patrons, with an average of 100. The amount varied based on the weather, the day of the week, and other factors such as nearby local events. Joe also had a formula for when the truck was invited to special events: He expected 35% of attendees would purchase food, not necessarily from him, but from one of the food vendors at the event. He would use this ratio to estimate the number of potential customers. He would then divide his estimate for potential customers by the number of vendors serving the event. If he was the only vendor, he would get all of the potential customers, if there were two vendors, he expected to get 50% of the food-buying customers. This number would serve as his guideline for how many pounds of meat he would need to smoke the night before. It had proven to be accurate in the past, and Joe intended to use this formula for any special events going in the future.

A crucial aspect of the company's success was its marketing strategy, which focused on social media. Because their food truck changed locations frequently, Cat and Joe wanted to ensure that customers knew where to find them, and the best way to do this was online. They were very active on Facebook, Instagram, and Twitter⁵ and, as of 2014, had not spent any money on traditional marketing. They had the largest social media presence of any restaurant or food truck in Kamloops. And it was through social media that the organizers of Bullarama contacted Cat and Joe.

THE BULLARAMA DILEMMA

The invitation was succinct. It explained that Cat & Joe's Pig Rig would be welcomed at Bullarama in Barriere, British Columbia. Bullarama was a charity rodeo event, where novice, junior, senior, and professional riders would compete. A handicapping system would be used to ensure all riders could expect competitive scores. According to event organizers, 700 tickets had been sold.

When Joe and Cat brought their truck to special events they did not serve their usual pulled pork sandwich combo. They served only the sandwich, with no beans, coleslaw, or French fries. This enabled them to serve customers much more quickly and to reduce their price to \$9 per serving. It also let them replace their expensive clamshell packaging with a much cheaper foil wrapping. With fewer side dishes and less expensive packaging, variable costs would be reduced by \$1.90 per customer when compared to their normal menu.

There were several other cost considerations related to the Bullarama event. First, the event organizers suggested a donation of \$100.⁶ Second, their food truck ran on propane, and the 140 kilometer round trip to Barriere would add \$100 to their typical fuel costs. Finally, in order to maximize space for the mobile cooking equipment, the truck only had one seat (for the driver), so if Joe drove the food truck, Cat would need to drive her car separately, with an expected extra gas cost of \$30. All of these costs would be avoided if they stayed home in Kamloops.

The couple had one other concern. The organizers promised that Cat & Joe's Pig Rig would be the only food option available to event attendees, but the entrepreneurs had heard such promises before and found they were not always reliable. While they trusted the event organizers, they were worried about the potential for other onsite competitors. They planned to do calculations for multiple scenarios.

The couple reminded themselves that business was good in Kamloops, but this represented an opportunity to expose their product to a new, potentially lucrative market. As Joe opened the calculator app on his smartphone, he reminded himself that numbers were important, but this decision would not be based on numbers alone. There were a lot of other factors to consider.

ASSIGNMENT

1. List and briefly describe the advantages and disadvantages inherent to the food truck business model as compared to traditional restaurants.
- 2a. On a typical day in Kamloops, how many “Ripped Pig” sandwiches must be sold in order to break even?
- 2b. Comment on Cat and Joe’s breakeven point (calculated in Part a). Should this number be relevant to the entrepreneurs?
- 2c. If Cat and Joe wish to make a \$100,000 profit for the year (after tax), how many pulled pork sandwiches must the Pig Rig sell each day? Assume all days are in Kamloops at regular prices.
3. Prepare a contribution-format income statement for one day’s business at the Pig Rig based on optimistic, realistic, and pessimistic projections for a regular, non-event day in Kamloops.
4. Prepare a contribution-format income statement for the Bullarama event based on an optimistic projection (no onsite competitors), a conservative projection (one onsite competitor), and a pessimistic projection (two onsite competitors).
5. What are the nonfinancial advantages and disadvantages of attending Bullarama?
6. Assume Cat and Joe were told that they should expect one onsite competitor. Would you recommend they stay in Kamloops for the day or go to Bullarama? Justify your answer with both financial and nonfinancial data.

ENDNOTES

- ¹Slow and low is a cooking style synonymous with southern-style barbecue. It refers to the fact that meat is cooked slowly at a low temperature to achieve an extremely tender texture.
- ²A full list of active food trucks in Vancouver can be found at <http://vancouver.ca/people-programs/street-food-vending.aspx>.
- ³Limitations included meeting all health-code standards that apply to restaurants and adhering to operating boundaries to prevent the food truck from poaching customers from established restaurants.
- ⁴Although there were other items on the menu, they had very similar prices and costs (margins were virtually identical). For the purposes of calculations in this case, assume there was only one item on the menu: the Ripped Pig sandwich.
- ⁵Cat & Joe’s Pig Rig had more than 1,700 “Likes” on Facebook, more than 600 Twitter followers, and nearly 200 followers on Instagram.
- ⁶It was not unusual for charity events to request its vendors to make a donation, and although the donation was “suggested,” it was realistically a requirement if Cat and Joe wished to attend the event.

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Exhibit 1. British Columbia Map



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Exhibit 2. Cat & Joe's Pig Rig
Front and Reverse View of the Food Truck

