Darden

At the Drop of a Dime

By The Restaurant Opportunities Centers United

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Darden Restaurants, Inc.

(Darden) is the world's largest full service restaurant company, owning such iconic and successful brands as Olive Garden, Long Horn Steakhouse, Yard House, and The Capital Grille.[1] Even taking into account its scale, Darden plays an outsized role in dragging down industry conditions. Not only does the company fail to provide paid sick days and pay the lowest possible wages to their employees (as little as $2.13 per hour) but Darden actively promotes industry disparities through lobbying for tax breaks and against increases in the minimum wage.[2] Given that restaurant workers occupy seven of the ten lowest-paid occupations reported by the Bureau of Labor Statistics, holding Darden accountable for its poor employment practices is key to transforming this growing industry.[3]

This report highlights a few key findings about Darden:

- Darden could raise all its workers to $15 for just a dime per $5 in sales
- That's just 19% of the amount Darden is currently proposing to spend on share repurchases in 2015
- If Darden passed the entire cost of an increase to $15 on to customers, it would raise prices only a dime on Olive Garden's Tortellini al Forno, or a dime on Longhorn Steakhouse's Spicy Chicken Bites.

Darden is currently undergoing major turmoil due to high-risk management practices and pressure from Wall St hedge funds, leading to predictions of the current board's 'demise'.[4] 'Activist' investors, led by Starboard Value, are angling to replace the entire Darden Board with their own candidates in order to 'unlock shareholder value', a Wall St euphemism for cutting labor costs and stripping away and selling a company's assets in order to increase immediate returns to shareholders.[5] When it comes to changing its course, Darden has a choice: it could follow the dictates of large corporate hedge funds, negatively impacting the livelihoods of thousands of Darden workers and their families, or, **at the drop of a dime** for every $5 in food and drink sales, it could create a positive atmosphere that values its employees and leads to growth through higher productivity and customer satisfaction.[6]

As Darden's corporate leadership and Wall St. hedge funds battle over the company's future, a vital voice has been overlooked in the process — the voice of front-line employees. That's why Darden employees at Olive Garden started a petition demanding that the workers at Darden have a say in the company's future. Over 5,500 Darden employees have signed the petition, supporting the demand that Starboard and Darden meet with the employees to hear their concerns and ideas on how to improve performance without sacrificing the livelihoods of workers and the communities they serve.[7]

The high road alternative for which Darden's employees are organizing is both affordable and realistic. Darden could implement a living wage of $15 per hour for all of their employees by simply redirecting just an additional 2% of sales towards their workforce.[8] This would amount to **only a dime** for every five dollars customers spend at Darden's restaurants.[9]

Darden Targeted by Wall St. Hedge Funds

Wall St. hedge funds, led by Starboard Value, have targeted Darden because the company has the largest real estate portfolio in the full service dining industry.[10] As outlined in a recent presentation, Starboard believes that Darden could unlock $1 billion in shareholder dividends through selling off real estate assets and even more through franchising its domestic restaurants.[11] This approach would realize huge returns for big Wall St investors at the expense of the long-term viability of the company, its workers, and their communities. Restaurants such as Olive Garden could have their earnings cut in half if they are required to pay rent on properties they previously owned.[12] This increased expenditure would not only impact workers' salaries but also the customer experience at Darden's restaurants, as the company would need to cut food costs in order to meet new financial demands.[13]

Not content with simply stripping away Darden's real estate to reward Wall St. investors, Starboard has also proposed enhancing shareholder returns by cutting labor costs through measures such as purchasing more pre-prepared food instead of preparing salads, soup bases, and sauces in-house. Not only would these changes diminish the quality of the food, but could also result in the **loss of up to 1600 prep cook positions**.[14] The hedge fund has also proposed increasing Darden's reliance on subminimum wages by shifting tasks traditionally carried out by bussers and food runners to servers.[15] Darden reported that it pays 20% of its hourly workforce the tipped subminimum wage of $2.13,[16] and Starboard would have that percentage go even higher. Starboard has a history of sacrificing workers' livelihoods for shareholder returns: earlier this year, it forced Wausau Paper to change leadership and consolidate mills, resulting in 1000 jobs being lost in a single year — over half of the company's workforce.[17] Similarly, under Starboard's leadership Office Depot is set to close one in five stores in the US by the end of 2016, putting over 12,000 jobs at risk.[18]

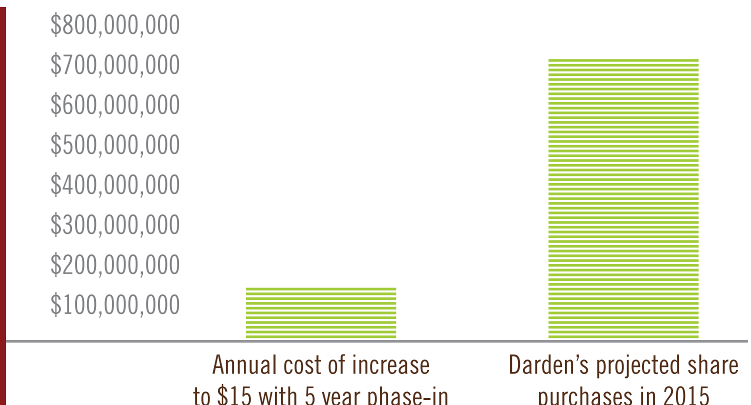
Darden's Low-road Practices Prioritize Wall St. over Main St.

As Darden finds itself pressured by activist investors to cut expenses, a better approach would lead the company to re-examine its already outsized shareholder subsidies, excessive executive compensation, and counterproductive political contributions. Under investor pressure, three of Darden's top-level executives have resigned and will walk away with **a compensation package worth an estimated $65 million**.[19] Clarence Otis, Darden's exiting CEO, will collect, solely in cash severance, $23,294 every week for two years after his departure from the company.[20] That means that even after leaving the company, Darden will continue to compensate its former-CEO more each week than a typical line cook, dishwasher, or server receives in a year.[21]

Moreover, over the past five years Darden has offered up **$1.8 billion to shareholders** through dividends and share repurchases while Darden's workers and their families have struggled.[22] In 2015, Darden's shareholders will continue to enjoy up to $700 million in further share repurchases, while the company's workers are paid the lowest possible wages (as low as $2.13 per hour) and are not provided health insurance or paid sick days.[23]

Not only does Darden enhance shareholder returns at the expense of taking care of their employees, Darden also actively blocks worker friendly legislation across the country by targeting everything from minimum wage increases to sick leave and fair scheduling laws.[24] Since 2007, Darden has spent an average of **$1.3 million each year** to defeat legislation aimed at bettering working conditions in the restaurant industry.[25] As an active member of the National Restaurant Association, Darden has stood against local ordinances for paid sick days in over 15 states.[26] All low-wage workers suffer from the company's anti-worker lobbying, which is second in expenditure only to McDonald's in the restaurant industry.[27]

Darden can afford to invest in its employees



Darden's Decision

Darden's executives and shareholders currently face a decision about the future direction of the company. They could continue to go down the road of quick returns for executives and shareholders at the expense of their workers and the communities they serve. Alternatively, Darden's leadership could invest in their workforce and allow hourly employees to earn paid sick days and better wages, particularly wait staff paid just $2.13 per hour. **Darden could realize a living wage of $15 per hour** for all of their employees in a realistic and affordable way by phasing the increase in over five years.[28] This would break the increase down to just 2% of customer sales, or **a dime for every five dollars** customers spend at Darden's restaurants.[29]

Even if Darden made the unfortunate choice to pass the added cost of a $15 wage entirely on to their customers, the price increases are negligiblee[30]

DARDEN RESTAURANT	CURRENT AVERAGE CHECK	NEW AVERAGE CHECK
Olive Garden	$16.75	$17.10
Long Horn Steakhouse	$19.25	$19.65
The Capital Grille	$72.38	$73.90
Yard House	$30.25	$30.88
Bahama Breeze	$23.38	$23.87
Seasons 52	$41.75	$42.63
Eddie V's	$89.75	$91.63

Taking the high road would help Darden refresh its brands and reach a growing base of consumers who are concerned about eating ethically sourced food prepared by employees who enjoy fair and sustainable working conditions. Furthermore, research has demonstrated that investing in workers through higher wages and benefits such as earned sick days can cut turnover in half, resulting in enormous savings on training expenditures.[31] Not only does taking the high road net savings on turnover costs, but can raise morale and increase productivity.[32] At the drop of a dime, Darden could realize cost savings from reduced turnover and redirect funds spent on excessive executive compensation, outsized shareholder subsidies, and counterproductive anti-worker lobbying, and take the lead in setting positive standards for the restaurant industry rather than dragging them down.

1 Darden also currently owns Bahama Breeze, Eddie V's, Seasons 52, and owned, until its recent divestiture, The Red Lobster.

2 Egan, M. (2013, December 10). Fox Business. "Darden's Political Spending Raises Eyebrows". Retrieved October 3, 2014.

3 ROC-United analysis of Bureau of Labor Statistics (BLS), Occupational Employment Statistics, 2013. National Cross-Industry Estimates sorted by median hourly wage for all Standard Occupational classifications.

4 Solomon, S.D. (2014, September 30). New York Times. "In Trying to Save Darden, a Board Sealed Its Own Demise". Retrieved October 3, 2014.

5 Starboard Value, (2014, September 11). Transforming Darden Restaurants.

6 Benner, C., Jayaraman, S. (2012, October 24). *A Dime a Day: The Impact of the Miller/Harkin Minimum Wage Proposal on the Price of Food*. Adjusted for a $15 per hour minimum wage phased in over five years & utilizing updated 2013 Bureau of Labor Statistics Current Population (CPS) data. Darden sales figures drawn from 2014 Annual Report

7 Darden: We Want a Seat at the Table Petition. Accessed at https://www.coworker.org/petitions/darden-we-want-a-seat-at-the-table

8 Benner, C., Jayaraman, S. (2012, October 24). *A Dime a Day*. Adjusted for a $15 per hour minimum wage phased in over five years & utilizing updated 2013 Bureau of Labor Statistics Current Population (CPS) data.

9 Ibid. Darden sales figures drawn from 2014 Annual Report.

10 Starboard Value, (2014, September 11). Transforming Darden Restaurants

11 Ibid

12 Dayden, D. (2014, September 17). Salon.com. "The real Olive Garden scandal: Why greedy hedge funders suddenly care so much about breadsticks". Retrieved October 2, 2014.

13 Ibid

14 Starboard Value, (2014, September 11). Transforming Darden Restaurants

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16 Jennings, L. (2014, April 18). Nation's Restaurant News. "Darden defends pay practices." Retrieved on October 3, 2014.

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18 Lublin, J. (2014, June 17). Wall St Journal. "Office Depot Is Leaner, but Work Isn't Done". Retrieved October 2, 2014. & Office Depot 2014 Annual Report

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20 Darden 2014 annual report. Retrieved October 2, 2014.

21 Bureau of Labor Statistics, Occupational Employment Statistics, May 2013 National Occupational Employment and Wage Estimates.

22 Darden 2014 annual report. Retrieved October 2, 2014.

23 Darden 2014 annual report. Retrieved October 2, 2014 & Jennings, L. (2013, September 25). Nation's Restaurant News. "Darden defends pay practices".

24 Roosevelt, M. (2014, May 4). Times Leader. "Proposals for paid sick leave stir up a healthy debate". Retrieved October 3, 2014.

25 Anderson, S. (2014, October 1). Institute for Policy Studies. Darden's Golden Goodbyes. Retrieved October 2, 2014.

26 Ibid

27 Egan, M. (2013, December 10). Fox Business. "Darden's Political Spending Raises Eyebrows". Retrieved October 3, 2014.

28 Benner, C., Jayaraman, S. (2012, October 24). *A Dime a Day*. Adjusted for a $15 per hour minimum wage phased in over five years & utilizing updated 2013 Bureau of Labor Statistics Current Population (CPS) data.

29 Ibid. Darden sales figures drawn from 2014 Annual Report.

30 Ibid. Darden average checks from 2014 Annual Report.

31 Batt, R. & Lakhani, T. (2014, January 15). *A National Study of Human Resource Practices, Turnover, and Customer Service in the Restaurant Industry*. New York, NY: Restaurant Opportunities Centers United.

32 Ibid