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Growing Restaurant Catering Sales in a Franchise Ecosystem

A Catering Institute Original Essay by Erle Dardick, *CEO, The Catering Institute™*

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Through my ongoing work at MonkeyMedia Software with many of the world's greatest restaurant brands, I'm inspired to write this essay to address the ongoing confusion, distress, frustration and communication disconnect that I sometimes see inside the franchise systems that I work with, when it comes to growing catering sales on top of current franchisee assets.

I feel obligated to share these thoughts with you, because I have been fortunate to not only come to understand the business challenges, but in fact, I have been given the opportunity to solve for these issues over the years.

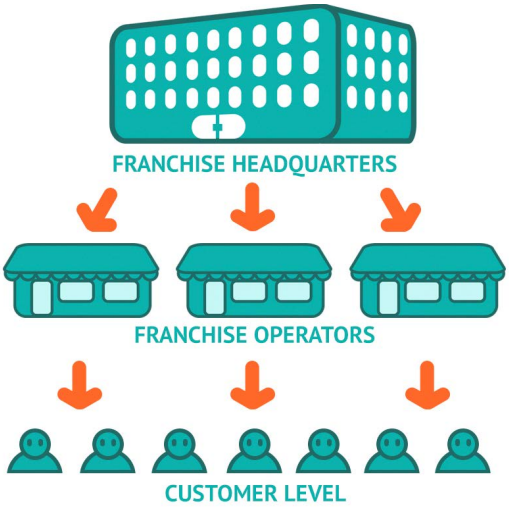
I am not laying blame on these issues. I simply wish to bring transparency as to the reasons that I feel have contributed to how catering out of restaurants has reached its current circumstances. In addition, I hope to propose real solutions and perspectives that perhaps our restaurant community may be able to utilize as we go forward in this sales channel.

> *"Ours is an industry full of creativity, processes, proprietary flavors and cultures. It makes good business sense for us to leverage that IP across the globe. At least, it looks that way on paper, but the plan is critical."*

There are no secrets, but intellectual property still matters

It's no secret that our franchising model for growing restaurant companies continues to be a key driver in our industry. Just look around. Everyone is franchising! After all, who wouldn't want to collect an annuity based royalty for the licensing of valuable intellectual property? The restaurant industry is no different than the music industry, the movie industry or even the software industry! Ours is an industry full of creativity, processes, proprietary flavors and cultures. It makes good business sense for us to leverage that IP across the globe. At least, it looks that way on paper, but the plan is critical.

A franchisee is an important part of the restaurant industry. Why? Because a franchisee can be good or bad for our brands, depending on the owner's operating skills and more importantly, their attitude. A franchisee with poor skills can spoil our entire system. A franchisee with a bad attitude can poison our brand culture. Likewise, a happy franchisee creates positive energy.



A happy franchisee will invest in their operations. A happy franchisee will defend our brands. A happy franchisee cares about results. And happy franchisees make more money. And if you are reading this, and I hope you are, making money is important right? Of course it is. That's how we keep score as business people. Without healthy economics, we are out of business!

So what makes a franchisee happy? Well, from what I have observed a happy franchisee is one that makes money! Yes, help them make money and we will have a healthy franchising ecosystem that will thrive, prosper and grow for many generations forward.

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I have further observed that the franchising business is only successful if the franchisees believe they are getting timely services from the franchisors. Good franchisors understand this service dilemma and go out of their way to make sure they invest in proper infrastructure to provide services to their franchisee community.

Our franchisees are our customers, and we, the franchisors, are their suppliers.

So what about catering in a franchisor/ franchisee ecosystem?

When it comes to catering out of franchisee restaurants there is a "BIG rub" for franchisors. What's exciting to me, is that the franchisors that I have observed in recent years, that are implementing a "new strategy" when it comes to growing catering sales are winning. Winning big!

The way I see it, as franchisors, we have perfected our franchising game. I recently attended a conference where the franchisee community makes up more than 4500 stores in the United States. A few months before, I was in the boardroom of a franchisor that has tens of thousands of stores around the world. Several days before that, I was in the field working hands on with franchisees that only owned a few stores. I am fascinated by the business dynamics, which are consistent from brand to brand. I have concluded that within this legal structure, we have created some systemic flaws in our business model.

In some franchise systems, we have created a deep divide within our franchisee communities through ongoing corporate leadership changes, the implementation of weak business processes and poor profiling of franchisees.

When it comes to catering, many of us have neglected to make this important sales channel part of our core business strategy. This is a fundamental shortfall in our thinking.

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In addition, as franchisees continue to work their restaurants every single day, they succeed at staying relevant within daily operations and react to changes in market conditions much more quickly than we do as franchisors. This results in a very savvy restaurant community that is becoming more sophisticated in their operations every single day.

Franchisors are playing catch up when it comes to the catering segment – it's our resources that franchisees want

As franchisors, we must take responsibility for our lack of vision when it comes to catering out of our franchisee restaurants. Necessity continues to be the mother of invention and franchisees who have their homes mortgaged learned long ago that catering is an important part of their sales mix. Restaurant operators who are in their stores every single day already cater, and for years, they have scrambled with their limited resources to fill the demand for catering.

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In many franchise systems, good restaurant operators went ahead in earnest. Why? Because catering out of restaurants is simply smart business!

Every restaurant operator today has customers asking for catering services. In addition, every restaurant operator needs more sales to help make this week's payroll and hopefully profits. Saying no to customers is never an option for any growing venture. Good franchisees find a way to do it. That's what entrepreneurs do. They just get it done.

As franchisors, we intuitively understand these dynamics, because often we are the ones that are helping with the financing of our franchisees. What a domino effect our community experiences when our franchisees fail. Like I said earlier, there is no more important animal to the restaurant industry than franchisees. They have the incentive to work hard for consumers especially when they are heavily invested.

I propose that, as franchisors, it's probable that we made HUGE oversights when it comes to catering out of our restaurants. We don't understand the complexity of this channel well enough, and we treated it as if it didn't really matter. Catering was always just an "add-on business" and although we always knew these sales were incremental, we just did not understand the long-term impact of catering on our operations.

As franchisors, we've been playing catch up when it comes to catering. It's time to focus on catering operations!

As consumer markets continue to shift, we as franchisors, brand police and the gatekeepers of standards, must consider leveraging our system scale to grow catering sales. Playing catch up is not only difficult, but unless we provide some compelling reasons for our franchisees to play with "our" catering ball, they will not let us join the game. I see it every day. Franchisees are worried about their catering business and they hold it close.

A sea of distrust – it's systemic

In many boardrooms, franchisors and franchisees are navigating a long history of distrust. Generations of executives have come and gone and franchisees are looking to changing leadership. For some brands, the issue is systemic.

> *"Today, many franchisors and franchisees are working hard to rebuild relations. We are making progress, however, the investment required to rebuild bridges is substantial."*

Today, many franchisors and franchisees are working hard to rebuild relations. We are making progress, however, the investment required to rebuild bridges is substantial.

I see great committees and franchisor/franchisee collaboration taking place. It's wonderful to see people working so hard for a common goal, and I remain hopeful that franchisors, especially in larger systems, will simply find better ways to communicate and service their franchisee communities, day in and day out.

In the work that we do at MonkeyMedia Software, we often act as a "broker" between the franchisee and franchisor when it comes to catering.

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I have concluded that in some ecosystems, there is an underlying "sea of distrust". Our franchisee ecosystems are highly delicate and both parties are very vulnerable in the relationship, and that leads to uncertainty, distrust and paranoia. In aging systems, many wounds remain open, and as such, difficult business issues, like growing catering, never reach their potential.

Establishing control on catering after the fact is difficult for franchisors

As I stated earlier, many of our franchisees may have gone off to grow catering sales without us. As we are arriving late to the game, we will need to make sure that we come forward with a plan that makes good business sense for our franchisees. A plan that will make them more money.

As franchisors, we must continue to deliver real results to our franchisees when it comes to providing them with our services. The same is true with catering. We have to rethink our services here, so that we can leverage our collective scale. We must further use that leverage in the best interest of our franchisees. If we do it half fast, our franchisees will not understand why they need us at all to build the catering sales channel. They will just continue to do it on their own, which may not be in the best interest of our brand. Building "catering silos" will not serve us well in the long run.

Until we invest in proper infrastructure, franchisees will intuitively feel our inexperience when it comes to catering. The temperature bar on our "sea of distrust" will increase and our franchisees will run hard to hide from our attempt to help with catering. If we don't deliver true results, franchisees will talk amongst themselves, and it will be very difficult for franchisors to establish proper brand standards that are very, very important to our long- term success. We will simply be "left out of the catering conversation."

On the other hand, if we take the right steps and establish a professional catering team on behalf of our brand, we will not only earn the respect of our franchisees, but we will be able to provide our community with great catering resources to help them go forward.

Remember, taking control of our brand experience for catering requires far more effort than just some designing slick packaging or creative advertising. It requires a commitment to "in-house" expertise in catering execution and active selling. We must have catering leadership that is focused on making more money for franchisees, every single day.

If we really want to win our franchisees hearts when it comes to catering, hire the right business leader. Because catering is so connected to the business strategy for our brands, consider a Chief Catering Officer, or a Director of Catering to show your franchisees that you are serious about this business channel.

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Giving up control after the fact is difficult for franchisees

Just like taking control of catering after the fact is difficult for franchisors, so too is giving up control after the fact for franchisees. Unless as franchisors, we provide compelling service arrangements for franchisees when it comes to catering, there is little incentive for our ecosystem to cooperate with the brand strategy for catering. It just won't work.

A franchisee needs a very good reason to cooperate with a united effort. Franchisees expect headquarters to show up with the obvious elements. There is a bigger commitment required by franchisors. What I am talking about is far more out of the box.

It's about providing our franchisees with services around leadership, active selling, answering telephones, following up on orders, collecting accounts receivables and canvassing communities through telemarketing. It's about really understanding the impact on operations and using our scale to drive efficiency and sales for our franchisees.

It's about getting very strategic at the highest level of the brand. It's about media, local store marketing and driving sales for the franchisees, each and every day. It's about creating a new machine. A new paradigm, and a better business model.

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The way forward is to use our scale to create areas of catering specialization throughout all parts of our ecosystems. Catering specialists that can handle sensitive consumer inquiries in a way that is in the best interest of the brand, which is in the best interest of our most important stakeholders. Consumers.

Franchisors must add value to the catering conversation to woo franchisees into a better business model

It's time to finally bear arms in the catering revenue channel for both franchisees and franchisors. It's time to let go of old feuds. It's time to coordinate a planned attack and use our size and reach to drive consumers to a better catering experience.

As franchisors, we need to get out of our comfort zone.

There are only three basic customer service touch points when it comes to catering. Sometimes there are even more, especially when a transaction goes wrong in catering.

Order entry, order distribution and order payment. Those are the basic elements.

During the lifecycle of a catering transaction, there are subtle and complex dynamics that have to be managed. So complex in fact, that we'd be doing our franchisees a big favor to simply remove this complexity in their operations so that they can focus on scaling their manufacturing and distribution efforts. This will result in more capacity for everyone and sales will increase throughout our ecosystems.

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Franchisees do not have the necessary resources to manage the administrative tasks associated with catering such as preparing proposals, estimates, invoices, accounts receivable and collections, follow-up, telesales, and professional order entry.

As franchisors, if we really want to succeed in this channel, we will have to remove the complexity for our franchisees. They are already taxed with just simply making payroll, opening their doors every day, hiring, training, financing, and just operating their stores.

When it comes to building and operating restaurants, as franchisors, we have done an amazing job at leveraging our scale to provide our franchisees with services such as financing, packaging, marketing, negotiating leases, legal, payroll, point of sale and inventory and construction. We have certainly nailed our efficiencies where possible. Our formula is working.

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As discussed, because the catering opportunity is an "afterthought", it also needs a formula and there is nothing easy about it. The new paradigm takes work, investment and an unwavering commitment to a new business model.

The brands who are redefining this paradigm and are designing and implementing this new model, are not only making it easier for their ecosystem, but in fact, they are building a bridge of success which leads to a positive experience for franchisees. This positive experience is spilling over into rebuilding franchisor and franchisee trust thought all parts of the organization.

It's not only working, but it's working well!

Franchisees must grow sales and increase profits to survive

I believe that sales solve most business problems. Franchisors are focused on the implicit costs of catering such as answering telephones, collecting payments and supporting centralized services in the catering channel. The costs are not well understood and so there is a collective "fear" that lives within the veins of the catering operation.

These costs are the wrong focus for the ecosystem. It's the wrong conversation to be having with franchisees. As we all know, many franchisees have grown tired of paying royalties and fees for what is perceived to be a franchisor that sits on its laurels. It's not about costs as much as it is about service. Service, service, service!

As franchisors, we all know that it's the attitude of the franchisee that makes their experience. As we discuss this perception, it is critical for us to understand that for them, our "lack of service" is real. Even though as franchisors, our perspective is different.

I point this out emphatically, because franchisees are our customers. The customer is "always right!" For franchisors, this dynamic gets difficult to manage because of the annuity payments that our ecosystems make for our services. It's like any long-term annuity payment. As people, we eventually grow tired of ongoing payments or we forget why we are paying. It's human nature.

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I now understand that if franchisors take the time to invest in a franchisee's catering venture, that in fact, not only do sales increase, but also pressure is eliminated from the restaurant and the whole venture becomes more efficient. Centralization drives costs down, specialization and increases sales when it comes to catering. When that happens, franchisees have healthier economics, and everyone in the service chain wins.

As franchisors, we have to stop trying to count beans, and focus on driving sales at the restaurant level. Of course, we have to provide both consumers and franchisees with the right service experience. It has to be scalable and predictable each and every time, throughout the entire order to cash cycle for this business model to work.

Let's not spend our time making our corporate finance department happy by passing catering service costs to franchisees that are willing to provide us with the trust we need to succeed here. It's just going to create a whole lot of tension. I am certain that if we make our franchisees more money, they will be happy to pay for services as we grow and evolve our catering operations.

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For catering to grow, franchisors must provide more services to franchisees

As franchisors, we already understand the business logic of consolidating services to leverage our scale and size. All of those services still apply in the catering channel. We must continue to control the elements of flavor, brand application, marketing, menu innovation, procedures and technology where possible.

In catering, there are additional points of control that need to be the responsibility of the franchisor. There are six key functional areas to focus on. Much of it can be outsourced to third party service providers in the long run. However, these six key principles must be driven to a single control point to ensure that the brand is properly represented in the marketplace and that consumers and franchisees are well served in the catering channel.

1. Selling to national accounts
2. Marketing using BIG media
3. Catering activation packages for restaurants
4. Training and restaurant certification
5. Call-centre services for order entry, telesales, customer relations, invoicing and collections
6. Software and IT

For catering to grow, franchisees must focus energy in their communities

If the catering business strategy is executed with precision and the franchisor provides a scalable and predictable service experience with centralized services, then resources will be freed up at the restaurant level.

Once resources are freed up at the restaurant level, franchisees can focus on driving local catering sales in their markets through flawless order execution of the catering experience out the back door of their restaurants. With the right strategy, franchisees can focus on:

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1. Supporting the BIG media advertising campaign with local restaurant marketing
2. Ensuring that catering brand standards are met in their restaurants
3. Ensuring that catering certification is in place in their restaurants
4. Order execution in each restaurant (manufacturing, quality, accuracy and delivery)
5. Maintaining a world class delivery program
6. Supporting the catering lead person at the restaurant
7. Driving consumers into the corporate sales funnel

If franchisors do a GREAT job at centralized services, franchisees will have more time on their hands to simply serve their communities and get orders out the door instead of being bogged down with the cumbersome administrative processes often associated with catering transactions.

As franchisee restaurants sales will increase, operations will run more efficiently and franchisees will make more money. As franchisors, we will be happier because we will have more control and a catering program that is systematic, uniform and predictable.

These results will yield happier franchisees, generate more royalties and will make our franchising packages far more attractive to new franchisees coming into the system.

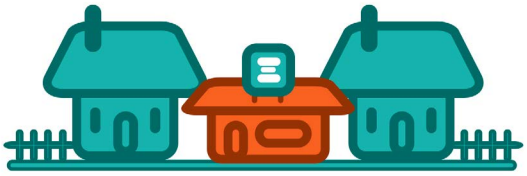
More importantly, consumers will have a better experience and they will come back more often and spend more money with us.

> *"As franchisee restaurants sales will increase, operations will run more efficiently and franchisees will make more money."*

The most logical business strategy is not always the easiest

As we dive deeper into the catering conversation, I want to acknowledge again that there is nothing easy about this fundamental shift in our thought process. The implementation of this strategy takes conviction and a real desire to succeed.

I appreciate that for some franchisors, this strategy might be daunting. Saying that, we have an obligation to our franchisees to do it right. All too often, I see franchisors that want to simply pass the effort onto the franchisees and franchisees that don't want their franchisors to touch their catering business! This lack of coordination is creating huge inefficiency in our processes. It's costing us A LOT of money!



I want to go on record here, that if we continue to sweep these structural issues "under the carpet", not only are franchisors going to get left behind, but in fact, our franchisees will go forward without us and we will eventually lose complete control of our off-premise catering experience. The long term pain will be far worse than making a decision to tackle this business challenge today. It will be impossible to rectify down the road! Become proactive.

What's in the best interest of our brand loyalists?

We all know how difficult it is to acquire new customers. Our community spends billions and billions of dollars each year trying to woo consumers into our restaurants. We spend billions and billions of dollars each year trying to do right by our customers in our restaurants.

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So why wouldn't we do the same thing when it comes to the catering revenue channel? If we want our customers to spend more money with us, we'd better do a good job for them. Successful execution of this new strategy will get consumers coming back more often to spend more money with our brands.

Lets focus on improving efficiency and the service experience for consumers in the catering channel. Service and quality trumps media every single time. Just focus on markets and sales will come. Serve consumers.

Why centralized services is the RIGHT business strategy when it comes to catering out of our restaurants

Catering is complex. We need control, precision and scalability. Our consumers are savvy. Franchisees are already overwhelmed. Centralized services for catering creates efficiency in our ecosystems by creating control points and proper inflection during the service process.

How else can we create symbiotic silos of responsibility where we can create experts and catering specialists? Volume through centralization will drive specialization. When it comes to successful catering, specialization is key.

Once we have this infrastructure, then we can really turn on the catering jets and push our energy into a system of sound business logic where we can mitigate our service risk and rest comfortably that we have taken a complex set of business challenges and brought them to the most common denominator for guaranteed service execution.

We will really be in a position to grow sales as franchisors and franchisees if we can execute on something so fantastic.

Why decentralized services can be dangerous for a brand in the catering channel

My experience with decentralized critical control points for catering has been negative. It's difficult to not only control the conversation with the consumer, its also difficult to train and scale because of the complexity of the transaction, and the complexity of our operations.

As a franchisor, if we really dive deep into the analysis, we will see how inefficient and expensive the distributed catering business model really is. Just so happens, we are simply distributing the explicit and implicit costs throughout our ecosystems. Because of that, nobody really worries about it because the financial impact of these costs is also distributed. So even though there is substantial financial pain in the system, because the pain is distributed, nobody feels the whole. Risk and inefficiency are present and there are fantastic profit gains to be made.

Layer the high risk of failure in catering with consumers and franchisee frustration on top and now we will really come to understand the long- term dilemma we have created for ourselves.

If we continue on this trajectory, we will never experience the economic value and power that catering can bring to our organizations if we standardize and specialize.

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Standardization is critical

As a community, we understand standardization better than any other industry. As a matter off fact, our industry is made up of 13 million workers, more than $650 Billion in sales in the US and, as a community, we have almost one million restaurant locations. We have spent decades systemizing and standardizing.

To create more wealth in our community, we must drive more sales. The only way to drive more sales is to serve new and changing markets. Catering will grow as the demand for convenience continues to grow. It's a natural progression for our industry and the only way we can grow new sales on top of existing assets is to find new standards and methods.

We need to make room for these sales and the only way to do that is to invest in smarter infrastructure. Like any business, long-term growth takes investment and commitment.

> *"Catering will grow as the demand for convenience continues to grow. It's a natural progression for our industry and the only way we can grow new sales on top of existing assets is to find new standards and methods."*

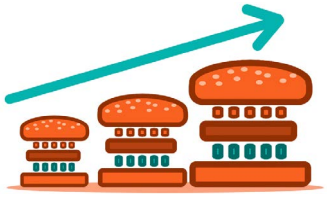
Forget about the fixed costs - they are not important when sales are growing

Focus on variable costs so that we can be certain that with each catering transaction we are making money. Certainly we will have to increase our infrastructure and overhead slightly to experience incremental sales growth.

However, the incremental fixed costs will be offset through the profits we will make in the long run as we see an increase in catering sales across our community.

What's even more special, is that through an increase in sales volume using existing facilities, we will experience even more profits from our catering dollars as the flow through of these sales will be substantially higher than our in-store sales. Especially if we value add our services for the consumer. Demand for catering services is completely different than the demand for our current restaurant services. Same consumer, different buying decisions.

As a franchisor, let's not worry about the addition of fixed costs for providing centralized services to our franchisees. It won't matter in the long run. We will receive our royalties as sales increase and that will far exceed our costs in the long run. In addition, as we succeed with our franchisees, they will support nominal service fees to help scale the program.



Why royalties and fees create dysfunction in our community and what we can do to fix it

I'm not going to say a lot here except that this dysfunction is created based on the "life cycle" of a franchisee and franchisor's relationship.

In the beginning, franchisees sign up for "territories", invest their hard earned money and get to work. The franchisor helps a great deal during this startup phase. As time progresses, and the local market conditions change, franchisors often move on to the incoming franchisees and the perception is that resources are no longeravailable to the "old timers".

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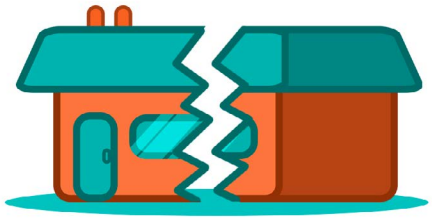
Franchisees begin experiencing the realities of business performance, and just like all business people, costs have to be rationalized. Franchisees will always question their fees as time goes on. They forget why they are paying these fees and then resentment begins to set in.

> *As the ecosystem grows, resources become scarce, territories shrink and inefficiency begins to surface in the system. Once that happens, franchisees begin to talk negatively about the franchisor and the cycle becomes systemic.*

Franchisors must find ways to invigorate and renew their commitment to franchisees to keep the system healthy, and to keep the value perception for royalties and fees in line.

As the ecosystem grows, resources become scarce, territories shrink and inefficiency begins to surface in the system. Once that happens, franchisees begin to talk negatively about the franchisor and the cycle becomes systemic.



It's tough to repair and very expensive for everyone. We lose focus and in the end, consumers do not get the designed experience that is so important to the brand.

Fix it by increasing our franchisees' sales. At the same time, bring our control back. Everybody wins with the centralized catering model.

Dare to do it differently; catering is a different business

I hope you found this essay to be thoughtful and useful. My wish is to simply provide you with a different and original perspective.

My hope is that before you turn on the catering jets throughout your entire franchise system, you will take a moment to reflect on these words and consider the long-term impact of rolling out a complex program in a decentralized service model.

I also hope that you will challenge the ideas and strategies put forward in this essay. It's an important debate for all of us. I am certain of that.

Let's talk catering.

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About The Catering Institute

The Catering Institute is the world's leading educator in takeout, delivery and catering, providing training, certification and consulting to restaurant operators and their teams.

The Catering Institute is a private, independent academic institution. Led by founder and CEO Erle Dardick, the faculty at the Catering Institute is passionate about helping brands excel at feeding their customers where they Live, Work & Play™.

Learn more:
www.cateringinstitute.com

About Erle Dardick

Erle Dardick is a 17-year catering veteran, business turn-around expert and author, best known for helping multi-unit restaurant executives create successful catering revenue channels. Erle founded both MonkeyMedia Software and The Catering Institute. He also authored "Get Catering and Grow Sales! A Strategic Perspective for The Multi-Unit Restaurant Executive."

Get Catering and Grow Sales!™

A Strategic Perspective for the Multi-Unit Restaurant Executive

by **Erle Dardick**

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As Partners in Education, MonkeyMedia Software, PepsiCo Foodservice, and Catering Insights work with the Catering Institute, to help restaurant operators grow sales and increase profits by educating them to become experts at feeding their customers where They Live, Work and Play™.

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