

# Problem statement case studies example

Business, Company



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## **Executive Summary**

This report provides a discussion of the expansion options that are available to Porcini, Inc. as it embarks on the launch of a new restaurant chain called Pronto, which is aimed to provide travelers with quickly prepared meals that are of a higher quality than fast food. With the company lacking in financial resources, they can grow the restaurants either through a franchising or syndication approach. Each approach has its advantages and disadvantages, all of which are discussed in this report. A recommendation is also made as to which option would be more effective for Porcini's expansion initiatives.

## **Background**

Porcini's, Inc. was a family-owned restaurant that was established in Boston's North End in 1969 (Heskett & Luecke, 2011). Over the next twenty years, the company would open more restaurants in Massachusetts, Rhode Island, and Connecticut (Heskett & Luecke, 2011) and by 1989, a controlling interest of the company would be sold to a group of private investors. This led to further expansions in shopping mall and downtown locations in the northeastern part of the United States. The company successfully increased

their annual earnings and revenues except during the recession in 2008 and 2009. By 2010, the company would have generated \$94.3 million in revenues, with its profit margin increasing to 4 percent from the previous year's less than 3 percent (Heskett & Luecke, 2011). By 2011, the company would be looking into opportunities for domestic expansion, considering that the company did not have the financial resources for international expansions.

In this regard, the company's Marketing Vice President Tom Alessio proposed the establishment of limited-menu outlets that would cater to interstate highway travelers. These restaurants would be named Porcini's Pronto. Alessio believed that the company can gain a competitive edge in this niche as most of the company's potential competitors consist of either low-end outlets or those that served fast-food. In this regard, Porcini's Pronto would be able to offer the customers something different in terms of the quality of its food.

Some of the questions that the company had to address with regards to this initiative include whether Pronto could "provide limited selection of Porcini's standard menu at moderate prices without jeopardizing the company's reputation for excellent food" (Heskett & Luecke, 2011, p. 1); whether it could maintain Porcini's high standards; and whether it could profitably enter a market that was already penetrated by established competitors. However, aside from issues regarding the food and service quality, proceeding with this initiative would also require the company to quickly launch its new restaurants in order to make its mark in the industry. Aside from being used to slowly growing the company, the quick rollout of new restaurants would

require a large capital and access to prime real estate sites, which the company did not have.

Two strategies that the company can adopt in order to obtain the needed funds and proceed with the expansion plans would be to adopt either a franchising or syndication model of ownership.

The problem that Porcini faces is how it can effectively and efficiently expand domestically, given its lack of financial resources.

### Analysis

A SWOT analysis will show that Porcini's strengths include its consistently high quality of food and service at each location. This in turn could be attributed to the long experience of the restaurant's chefs, supervisory personnel, managers, as well as its stable workforce (Heskett & Luecke, 2011). Another of its strengths is their menu or the recipes that are created by Chef Mariana Molise. Still, another of its strengths is its ambiance of a unique, family-owned restaurant, which is in contrast to its competitors' theme-park ambiance. The restaurant has also received the " Best Chain Service" award for four years, which further strengthens its brand's reputation.

On the other hand, the weaknesses of Porcini include its lack of resources for expanding overseas. According to Samadi (2011), there are few large chains and restaurant operators that have established international operations. This is because most of the full-service restaurants in the country are US-owned, which means that they obtain most of their revenues from domestic sales. This implies that competition within the domestic market would be even tougher.

Another weakness is that the Pronto brand is not well-known in the fast-food industry, which may pose difficulties in promoting the restaurant and in competing with fast food leaders such as Subway, McDonald's, Pizza Hut, Burger King, and KFC among others (Publications International, Ltd., 2014) (See Fig. 1). In addition, its lack of experience in quickly launching restaurants would make it even more difficult for the company to be at par with its competitors.

One of the opportunities for Pronto is that it offers higher quality food than most fast-food restaurants in that they make everything from scratch whereas most fast food chains usually purchase frozen or pre-processed food products. While most fast-food chains serve burgers, French fries, sandwiches, and the like, Pronto would serve Italian food, which would be more satisfying for customers who want to enjoy “real” meals. Because Pronto would make their food from scratch, they would be serving healthier food, which may appeal more to health-conscious customers (For the nutritional facts on fast food, see Fig. 2). In addition, positioning the Pronto restaurants in interstate highway exits provides the company with a great opportunity for increasing its revenue and gaining brand recognition as the restaurant choices in these locations are limited.

With regards to the threats to Pronto, one would be that it has well-known competitors in the full-service chains restaurant segment. These include Bob Evans Farms, Denny's, Olive Garden, and Red Crab (Heskett & Luecke, 2011). Although Porcini is well-known in the northeastern region, they are not well-known on a national level unlike some of its competitors. Pronto will also be somewhat like a new brand, which means that Porcini would have to find

ways to make Pronto stand out among its competitors. Another threat would be the economic difficulties that the country is experiencing. Since Pronto's products would be more expensive than those of other fast food restaurants, Pronto's target market would be limited to customers who have relatively high income levels.

With regards to its growth options, Porcini's expansion through Pronto can be implemented either through franchising or syndication. One of the advantages of franchising is that it would enable the quick and easy roll out of new restaurants without the company having to raise all of the capital. The franchisees would incur the construction and acquisition costs, in turn enabling the franchisor to shift its attention from managing restaurant-level operations to brand building and system-wide marketing (Heskett & Luecke, 2011). However, the disadvantage of this approach is that Porcini may not be able to ask for high franchising fees since Pronto has no track record yet. This approach would also prevent Porcini from having full control of the franchised restaurants, which may pose risks on the company's brand and standards.

On the other hand, one of the advantages of the syndication approach is that the company can sell its restaurants to a group of investors, in turn enabling them to recoup their capital and use it for other syndication deals (Heskett & Luecke, 2011). This approach would also enable the company to gain access to prime locations, which are usually owned by investors. At the same time, this approach would enable the company to retain full control of the restaurants, in turn enabling them to ensure that the new restaurants conform to the company's standards. On the other hand, its disadvantage is

that it comes with substantial transactional costs and has a more complicated process than franchising. Some of the investors may also want to have a say in the restaurants' operations, which may cause conflicts with the company's management team (Chan, 2009).

## **Recommendations and Conclusions**

Based on the analysis presented in this report, it would be recommended that Porcini employ syndication as its approach for business expansion, specifically through Pronto. Syndication would enable the company to obtain the financial resources that it needs for expansion and it would also allow them full control of the Pronto restaurants. Having full control of the new restaurants would be important in their early stage as this is when the company builds the restaurants' brand, standards, and reputation.

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Appendix

Figure 1 Top U. S. Quick Service Restaurants by In-Store Visits (" Most-Visited U. S. Businesses," 2013)

Figure 2 Facts About Fast Food (Xu, 2011)