

# CASE STUDY





## The Composable Restaurant Franchise

We like to keep things pretty simple. At Smalls, we have one mission: Simplify everyday life with moments of delicious food and true gratitude. We want to create the ideal food experience for our customers: simple, fun, delicious.

—Smalls Sliders<sup>2</sup>

### Introduction<sup>3</sup>

Recalling when he had been invited to the warm opening of Smalls Sliders,<sup>4</sup> Joaquin Rodriguez could not stop thinking about how he would manage the growth of the chain if he had been in charge. Joaquin, a Ph.D. candidate at the EJ Ourso College of Business at Louisiana State University, was writing his dissertation on the strategic impact of digital technology and had been focusing on online food delivery as the context of his empirical work.

During the warm opening, when he had toured the back-of-the-house of the restaurant, he formulated the idea that *Smalls*, as the founders and employees liked to call the concept, was perfectly positioned to take advantage of two colliding trends: The rise to prominence of digital channels in the restaurant industry and the availability of digital resources in an increasingly infrastructural, combinatorial and servitized competitive environment. And that was months before the COVID-19 pandemic crisis ravaged the restaurant industry. As the US was seemingly coming out of the crisis, many customer behaviors had been changed forever.<sup>5</sup> All this work he was doing, he thought, was not just “academic” stuff, it could really guide decision making for real businesses.

### The Making of Smalls

Smalls Sliders was the brainchild of Brandon Landry, successful restaurateur and co-founder of the Walk-On's franchise of “Sport Bistraux” based in Baton Rouge,

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1 This note was developed by Professor [Gabriele Piccoli](#) as the basis for class discussion. No part of this document should be copied, reproduced or redistribution without express written consent of the authors. All product names, logos, and brands are property of their respective owners. All company, product and service names used in this note are for identification purposes only. Use of these names, logos, and brands does not imply endorsement.

2 <https://www.smallssliders.com/>

3 While based on a real restaurant concept and public sources, this is a fictitious case developed with the exclusive intent of supporting class discussion.

4 The warm opening of a restaurant is a pre-opening phase where friends and family are invited to dine for free at a restaurant while the operation works out the inevitable imperfection in food preparation and service operations.

5 Watson, Richard; Ives, Blake; and Piccoli, Gabriele (2020) "Guest Editorial: Practice-Oriented Research Contributions in the Covid-19 Forged New Normal," *MIS Quarterly Executive*: Vol. 19: Iss. 2, Article 2.

Available at: <https://aisel.aisnet.org/misqe/vol19/iss2/2>



Figure0.1: Smalls Slider menu

LA. "Smalls was created a lot like Walk-On's, 'Hey, I have an idea!' Landry said. "I told Drew about the concept, and he was all in."<sup>6</sup> Drew was Drew Breeze, NFL superstar and partner in the Walk-on's restaurant concept. The duo launched the concept with co-founders Jacob Dugas and Scott Fargason. "We couldn't be more excited to launch this unique concept in our hometown," Dugas was quoted as saying in a press release, adding that the restaurant was focused on helping guests "celebrate the small things."<sup>7</sup> As the name suggested, the menu was focused exclusively on slider burgers as the main dish (Figure0.1).

Local monthly lifestyle periodical 225 Magazine described the concept:

Smalls Sliders is not your average fast food joint. Located [near Louisiana State University], the bright orange burger restaurant designed from repurposed shipping containers makes simplicity look cool. [...] With this new concept, less is more. The menu has four main slider combos (with one, two, three or four sliders depending on your appetite) that come with fries and a drink. You can also order vanilla and chocolate milkshakes, children's options and party packs.<sup>8</sup>

The concept was unique in that the whole restaurant fit in a shipping container (Figure 2). Dugas explained on the Foodie Friday podcast: "the whole building is modular, we build everything off-site, all of the equipment is put in there, the flooring is in, it comes in and its plug and play. In 60 days we have a

<sup>6</sup> Smalls Sliders will make debut in Baton Rouge. (2019, March 15). Fastcasual.Com. <https://www.fastcasual.com/news/smalls-sliders-will-make-debut-in-baton-rouge/>

<sup>7</sup> ibid.

<sup>8</sup> Corfah, C. (2019, October 3). Fast Break: The new Smalls Sliders on Nicholson Drive brings small bites with big flavor. 225 Baton Rouge. <https://www.225batonrouge.com/food-drink/fast-break-new-smalls-sliders-nicholson-drive-brings-small-bites-big-flavor>

restaurant.”<sup>9</sup> Locations had a small outside area, reminiscent of 1950s roadside burger joints, where food could be consumed. However, the whole concept was geared toward take out, with the drive through lane being the primary source of traffic. A year since the warm opening in September 2019, Smalls had delivered its 500,000<sup>th</sup> slider. Dugas commented: “*with this whole pandemic was kind of an up-and-down, it was a rollercoaster [...] with LSU [students] being sent home, your whole customer base is gone. But we did some grassroot marketing, we took the food truck out, people started hearing about us [...] end of March, mid-April [2020] we definitely took a hit, but after that it really took off.*”<sup>10</sup>



Figure 2: Architectural rendering of the Smalls Sliders concept

The company took great pride in the quality of the ingredients, with food quality and perfect execution of the recipes being the critical success factor in the founders' mind. Thus, the staff prepared the 2Oz (56g) cooked to order burger patties daily, almost twelve hundred a day on average, and ordered the buttery buns from a local provider.<sup>11</sup> But food was just the beginning in the creation of a successful operations: “*We know that it takes a lot more than a product to make a quick-service restaurant,*” Dugas said in an early interview “*In particular, the culture of a*

<sup>9</sup> Foodie Friday featuring Smalls Sliders. (2020, August 7). Talk 107.3. <https://talk1073.com/2020/08/07/foodie-friday-featuring-smalls-sliders/>

<sup>10</sup> ibid.

<sup>11</sup> Foodie Friday featuring Smalls Sliders. (2020, August 7). Talk 107.3. <https://talk1073.com/2020/08/07/foodie-friday-featuring-smalls-sliders/>

*brand. Who you are as a company.”*<sup>12</sup> At Smalls this was evident in every aspect of the branding, from the building, to the colors to the service. From the inception it appeared that the founders were laser focused on making a highly recognizable, highly scalable, and easily franchisable restaurant concept—not unlike Raising Cane’s, another restaurant with a limited menu started right outside the gates of LSU:

Our concept is simple and unique... we only have ONE LOVE—quality chicken finger meals! At Raising Cane’s® you get an exceptionally high-quality product served quickly and conveniently. We can do this because we offer a limited menu. The specialized systems developed by Raising Cane’s® allow us to maintain a level of quality unmatched in the industry. Our commitment to this concept will not allow us to compromise our quality, cut corners or clutter our menu with new products that do not fit our core menu offering.<sup>13</sup>

Launched in 1996, Raising Cane’s had grown dramatically in recent years. Forbes wrote:

Raising Cane’s is on a growth trajectory unlike most concepts in the crowded restaurant space. Consider the chain’s sales in 2016 were about \$576 million with about 250 units. In 2019, they were about \$1.18 billion with about 400 units. Raising Cane’s just surpassed \$1.5 billion in annual sales, tripling in size in just four years. The company is about to open its 500th restaurant. Even more impressive, average unit volumes are approaching \$3.6 million. For context, McDonald’s pulls in about \$2.8 million in AUVs.<sup>14</sup>

For a Raising Cane’s, a franchisee typically required an upfront fee of about \$45,000. But the biggest hurdle to getting started was the investment in real estate, equipment and startup costs estimated around \$768,100 to \$1,937,500. Ongoing operation required anywhere from \$90,000 to \$250,000 in working capital and a 5% royalty fee.<sup>15</sup> These numbers were fairly standard for the industry, and every franchise concept worked hard to minimize them in order to reduce the barriers to expansion. Expansion was key to a franchisor’s success because the nature of what the franchisor offered was information: a brand, information in the customers’ mind, and operational know-how, information at the disposal of the franchisees. Like any “information good,” investments in support of the franchise network had

<sup>12</sup> Klein, D. (2019, March 25). *With Help from Walk-On’s, Smalls Sliders Cooks Up Big Plan.* QSR Magazine. <https://www.qsrmagazine.com/exclusives/help-walk-ons-smalls-sliders-cooks-big-plan>

<sup>13</sup> Our Concept. (2013, April 4). Raising Cane’s. <https://www.raisingcanes.com/our-concept>

<sup>14</sup> Kelso, A. (2020, March 13). *Raising Cane’s Now Offering ‘Industry-Leading’ Compensation, Including The Chance To Make \$1 Million.* Forbes. <https://www.forbes.com/sites/aliciakelso/2020/03/13/raising-canies-is-now-offering-industry-leading-compensation-including-the-chance-to-make-1m/>

<sup>15</sup> Raising Cane’s Franchise Review. Franchise Grade. Retrieved from <https://www.franchisegrade.com/franchises/raising-cane-s>

high fixed cost but scaled very well. As long as a franchisor was able to ensure the quality of the product offered by the franchisees under its brand, incremental units delivered high margins.

## Pandemic Shock

Just a few months after Joaquin had been at the Smalls' warm opening event, on March 11, 2020, the World Health Organization (WHO) declared the novel coronavirus (COVID-19) outbreak a global pandemic. The crisis hit restaurants very hard, with the closure of dining halls and later restrictions on the number of guests a location could host. More importantly, the pandemic had a profound impact on customer habits. As people were increasingly confined in their houses, digital ordering, contactless pickup, and delivery became preferred options to obtain restaurant food.

Restaurants with a sizeable take-out and delivery operation, after an initial hit, were able to navigate the pressures posed by the crisis. For example, two months into the pandemic lockdown restrictions Todd Graves, founder of Raising Cane's stated: "*Through the drive-thru we got quicker, we got more proficient, and went from 30% [sales drop] to 25% to 20%, and now we're actually even with our original forecasted sales. Other restaurants that don't have the drive-thru, my heart goes out to them, but thank goodness we haven't laid off any crew.*"<sup>16</sup> Domino's Pizza, the chain exclusively focused on delivery and take out, actually benefitted from the pandemic. A digital pioneer in the restaurant industry (Figure 3), Domino's same-stores sales grew 11.2% in the last quarter of 2020, up from 3.4% in the year before. Furthermore, in 2020 the chain saw a 5% increase in digital sales, which by the end of 2020 accounted for 75% of total sales<sup>17</sup>. Dominos financial results were impressive, especially since most restaurants experienced reductions in sales during 2020. Despite its remarkable results, Domino's leadership believed the firm had to continue investing in both customer facing (e.g., car-side delivery) and operational (e.g., AI-enabled demand forecasting) innovations if it was to maintain its leadership.

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<sup>16</sup> Chung, H. (2020, April 30). *Raising Cane's CEO: We're not going to hurry back and reopen stores*. Yahoo! Finance. <https://finance.yahoo.com/news/raising-canес-ceo-were-not-going-to-hurry-back-and-reopen-stores-182318462.html>

<sup>17</sup> Motley Fool Transcribers. (2021, February 25). *Domino's Pizza Inc (DPZ) Q4 2020 Earnings Call Transcript*. MSN. <https://www.msn.com/en-us/money/companies/dominos-pizza-inc-dpz-q4-2020-earnings-call-transcript/ar-BB1e1y4B>

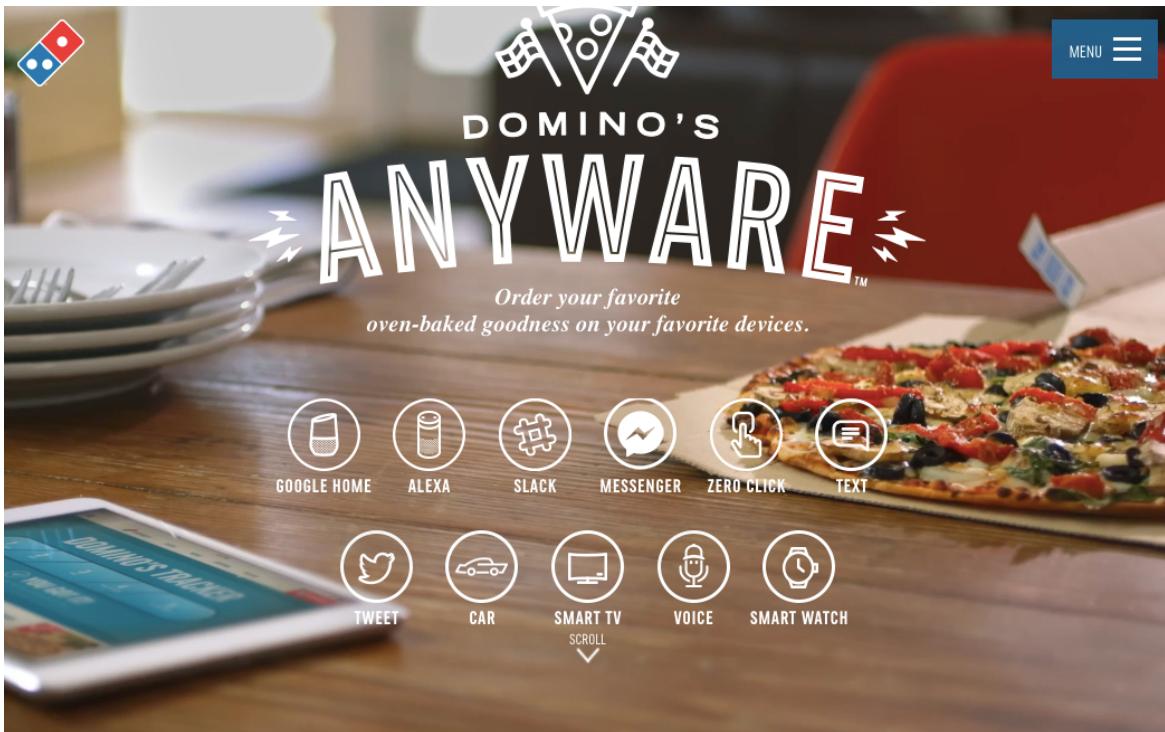


Figure 1 Domino's Anyware initiatives at the forefront of digital ordering and customer's experience

While the restaurant industry remained insulated for nearly three decades from the digital disruptions pervading other hospitality sectors (e.g., air travel and accommodation), digital disruption was happening rapidly, with the pandemic impressing an acceleration. Multiple restaurants, such as Shake Shack, Chick-fil-A, McDonalds', Five Guys, KFC, Burger King, were investing heavily in their digital channels (e.g., mobile and web apps), like the airline industry had done in the late 1990s. Furthermore, the rise to prominence of aggregators of demand, such as UberEats, Deliveroo, DoorDash, GrubHub, that promised incremental demand and delivery services with no up-front investment was reminiscent of the rising power of online travel agencies (e.g., Expedia, Booking) in the lodging sector during the early 2000s economic recession. While requiring no fixed investment, the typical restaurant aggregator charged substantial commissions (e.g., 30%) in an industry with razor thin margins. More importantly, aggregators disintermediated the relationship with customers, preventing restaurants from creating a differentiated value propositions.

As the “digital disruption” of the restaurant industry accelerated, many restaurants were creating new concepts that leveraged these opportunities. Wendy’s was experimenting with drive-through only restaurants.<sup>18</sup> Chipotle was redesigning its physical stores to incentivize the use of its digital channels and pick-up and

<sup>18</sup> Luna, N. (2020, November 4). *Wendy's breakfast gains steam as quick-service brand looks at building drive-thru-only restaurants*. Nation's Restaurant News. <https://www.nrn.com/quick-service/wendy-s-breakfast-gaining-steam-brand-looks-building-drive-thru-only-restaurants>

delivery services.<sup>19</sup> McDonalds' leveraged menu optimizations and AI-powered digital menu boards to improve its service speed and increase product upselling.<sup>20</sup> While the crisis hit the industry very hard, those restaurants that could take advantage of digital technology and new post-pandemic customer habits seemed poised for growth.

New entrant to the industry were "digital first." Companies like Virtual Dining Concepts, the brainchild of long-time industry player and Planet Hollywood founder Robert Earl, promised to restaurants reeling from the pandemic crisis: "*You're already cooking, Virtual Dining Concepts (VDC) is the secret sauce to increase your profits. VDC offers restaurant owners an easy solution to generate more revenue out of your existing kitchens with minimal impact to current operations. Attract new customers with delivery-only menus using food delivery services.*"<sup>21</sup> VDC enabled restaurants to prepare food for virtual brands it owned and operated.

As the firm put it: "You focus on food. We do all the rest." The firm aggressively partnered with celebrities to theme their virtual brands and had an in-house culinary team that created the menu. One of the high-profile VDC brands was MrBeast Burgers, developed in partnership with YouTube creator Jimmy Donaldson (aka MrBeast). Thanks to Donaldson's popularity and his more than 55 million YouTube subscribers, the MrBeast ordering app "*quickly surged to the top spot on the Apple Store among food and beverage apps,*"<sup>22</sup> and the launch video uploaded on Dec 19, 2020 to MrBeast's YouTube channel quickly passed the 50 million views. Within three months the MrBeast "chain" counted 450 outlets and was on its way to a target 2000 units.<sup>23</sup> Fans could order the food via the proprietary app or website, as well as leading food delivery aggregators like Doordash. While food consistency remained a challenge, the concept's ability to generate demand was not in question.<sup>24</sup>

## Post-Pandemic Growth

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<sup>19</sup> Luna, N. (2020, February 14). *Chipotle Mexican Grill takes a page from quick-service playbook to drive digital sales.* Nation's Restaurant News. <https://www.nrn.com/fast-casual/chipotle-mexican-grill-takes-page-quick-service-playbook-drive-digital-sales>

<sup>20</sup> Luna, N. (2020, October 2). *McDonald's drive-thru lanes are nearly 30 seconds faster thanks to limited menu, 11,000 Dynamic Yield menu boards.* Nation's Restaurant News. <https://www.nrn.com/quick-service/mcdonald-s-drive-thru-lanes-are-nearly-30-seconds-faster-thanks-limited-menu-11000>

<sup>21</sup> <https://www.virtualdiningconcepts.com/>

<sup>22</sup> Maze, J. (2021, February 12). *Why MrBeast Burger is the most important restaurant concept in the U.S. right now.* Restaurant Business. <https://www.restaurantbusinessonline.com/financing/why-mrbeast-burger-most-important-restaurant-concept-us-right-now>

<sup>23</sup> Lessin, S. (2021, March 24). *'MrBeast' Explains His Plans to Help YouTube Creators Raise Equity Finance.* The Information. <https://www.theinformation.com/articles/mrbeast-explains-his-plans-to-help-youtube-creators-raise-equity-finance>

<sup>24</sup> Watson, A. (2021, January 7). *The Untold Truth Of MrBeast Burger.* Mashed.Com. <https://www.mashed.com/308763/the-untold-truth-of-mrbeast-burger/>

Coming to work one morning, Joaquin saw the announcement of a second location being planned for Smalls Sliders in Baton Rouge. The article mentioned that the firm had applied for a permit to open its second restaurant in a local shopping center: “*plans are to install an 800 square foot [74 square meters] modular building [...] There will be a drive through, a pick up window and a covered dining area, similar to the setup at the first Smalls.*”<sup>25</sup> This was welcomed news, and it coincided with the hope that was beginning to spread in the US as the vaccination plans were kicking into high gear. The article made Joaquin think back about the pre-pandemic growth plans he had heard from Smalls. With experienced co-founders like Landry and a strong financial backing, the concept could be feasibly taken nationwide through an aggressive franchising model. Before the first restaurant even opened, QSR magazine wrote:

Smalls Sliders has national growth potential. One indicator of what’s to come: it’s a 950-square-foot [88 square meters] shipping container building. Similar to one of Checkers & Rally’s top growth vehicles, the construction is built off-site, at a controlled cost, and shipped to location. It makes for a quicker and more operator-friendly approach to start-up fees.<sup>26</sup>

The article quoted Dugas as saying: “*You could be doing your site work while the building is being built. [...] It’s a really cool process. And you can ship it anywhere in the country.*”

The world had dramatically changed with the pandemic. But, Joaquin thought, “perhaps those changes are a blessing for a concept like Smalls.” The article got him thinking about how he would advise the firm based on his research and his knowledge of digital disruption. Was the post-pandemic world setting up the conditions for growth or was it a challenge to a concept like Smalls Sliders? What would be the growth model, and what would be the role of digital technology?

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<sup>25</sup> Boone, T. (2021, March 1). *Smalls Sliders plans second location*. The Advocate.

[https://www.theadvocate.com/baton\\_rouge/news/business/article\\_57f926d0-7ae1-11eb-908d-5bd0b7e0adb2.html](https://www.theadvocate.com/baton_rouge/news/business/article_57f926d0-7ae1-11eb-908d-5bd0b7e0adb2.html)

<sup>26</sup> Klein, D. (2019, March 25). *With Help from Walk-On's, Smalls Sliders Cooks Up Big Plan*. QSR Magazine.

<https://www.qsrmagazine.com/exclusives/help-walk-ons-smalls-sliders-cooks-big-plan>

## Discussion Questions

1. Do you believe that the Smalls Slider concept is well suited for rapid growth in a post-pandemic world? What make it so and what would be the key challenges you would advise the leadership to manage carefully?
2. What should Joaquin suggest to Smalls executives concerning the use of digital resources to support the customer's experience?
3. What do you see the role of food delivery aggregators? Are they a threat or an asset for a concept like Smalls?