IT Integration- Franchise Stores, Inc.

Apoorva Jain

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Case #4

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SMU | Bobby B. Lyle School of Engineering

Cream Corp is buying BurgerMax and Joe's Coffee from America's Choice, together they will create Franchise Stores Inc.

- On April 1, 2012 Fountain Partners announced that its affiliate, Franchise Stores Inc., completed the purchase of BurgerMax and Joe's Coffee from America's Choice, Inc. ("ACI") for $31 million in cash
- Foundation Partners
  - Private equity firm that acquires majority stakes in franchise, consumer branded, packaging, niche manufacturing, and service businesses
  - Rob Nilsson: founder and managing partner of Fountain Partners.
  - When Fountain Partners purchased Cream Corp. in November 2006, the focus was on expanding supermarket distribution, reinvigorating the products/how they're sold to grow the ice cream brand
- Franchise Stores Inc (FSI)
  - Acquired 2 brands (BurgerMax, Joe's Coffee) and a new company (Cream Corp)
  - The franchisor and operator of over 1,200 ice cream stores, restaurants, and cafes under the brand names Cream®, BurgerMax®, and the franchisor of Joe's Coffee®. (the total market)
  - Sam Marino is president and CEO & intends to have all brands operate under FSI's already-strong branding
  - Greg Kincaid is Chief Operating Officer and will oversee the integration of the three companies
  - Steve Yokey is Burger Max CFO and is considered as the future CFO of Franchise Stores.
  - Cream Corp
    - A leading provider of premium soft serve ice cream and ice cream cakes
    - Since the acquisition of Cream Corp, FSI has added over 150 new outlets (40% increase) in 17 new states
    - Cream Corps supermarket distribution has grown by 50% – 2,600 new outlets
  - FSI and Cream Corp are similar sized companies coming together but have very different IT setups
    - Integration of carved-out company into existing "platform" company
    - Back-office operations will be combined for cost-effectiveness and efficiency
  - "Tiger teams"
    - Appointed in each area to determine when and how the integration should take place.
    - Team will be composed of both internal staff from Cream, BurgerMax and Joe's, as well as outside consultants with expertise in post-merger integration work.

Cream Corp has not prioritized IT in the past: they are a small IT department with a small budget and an outdated project portfolio

Cream Corp

- Has a small, 3-person IT department
  - IT Director: Stan Blue
    - Stan is an inexperienced IT director (no formal training in IT)
    - He may not be good at running the IT department of a larger company and could potentially be better suited in another role following the merger
  - 1 Infrastructure (server and deskside support)
  - 1 Financial Applications support
- IT Budget
  - $565,000 total [1] ([2] below)
    - 49% to Staff Salaries
    - 26% to Telecom/Data
    - 9% to Hardware Maintenance and Depreciation
    - 9% to Supplies
    - 4% to Software Maintenance and Licensing
    - 3% to Miscellaneous
      - IT budget is not properly allocated
- Application & IT Project Portfolio
  - Has very different infrastructure and applications than Joe's Coffee and BurgerMax. This could pose a problem if Franchise Stores Inc. wants to integrate the systems in a way that will help them grow in the coming years.
  - IT department appears to be very unorganized - with no clear inventory of hardware or assets. They also have a very small project list
  - Financial Applications run on an AS/400 platform which is several versions behind/outdated
  - Interfaces are business critical which focus only on revenue

Findings

America's Choice, Inc. (BurgerMax and Joe's Coffee)

- IT Department Staff is heavily centralized and outsourced so there will either need to be a lot of outside hires brought on or continue to outsource
- IT Budget
  - $9,750,000 Total [4] ([5] below)
    - 67% to Outsourcing including data center
    - 23% to Telecom/Data
    - 8% to Staff Salaries
    - 4% to Miscellaneous
    - 3% to Software maintenance and licensing
    - 1% to Hardware Maintenance and Depreciation
    - 1% to Supplies
      - IT budget is not properly allocated: high spending on outsourcing payrolls and low spending on internal operations and future investments
- Application and IT Project Portfolio
  - Appear to have clear inventory of assets and software as well as clear replacement strategy for their computers.
  - They have an incredibly long project list.
  - Much more up-to-date than Cream Corp
  - Typical infrastructure other than Windows 2003
  - Need to update desktops
- Elizabeth Williams, CIO America's Choice Inc. informed that they are having a 6-month transition agreement with Franchise Stores to continue to provide them IT services. [6]

Integration Strategy

- The total IT budget for all of the franchises will be around $2M which seems low for a company that just purchased two brands for $30M.
  - Cream Corp IT budget is ~ $500k
  - IT budget for Joe's Coffee and BurgerMax combined is probably around $1.5M [3]

Recommendations

- CIO
  - Use the Cream Corp IT director, Stan Blue, to lead a tiger team because he knows the business well but is not as experienced in large, public IT management.
  - Hire the Divisional CIO of BurgerMax/Joe’s Coffee as an experienced IT director with public companies [7]
- Reevaluate the budget
  - NEED
- Human Resources
  - The IT policy and staffing culture is entirely different in the two firms. We need to formulate policies to satisfy both sets of employees.
    - Continue to outsource operational IT staff until the proper staff can be built.
    - Hiring IT team from ACI supporting BurgerMax/Joe’s Coffee: Need to hire IT personnel with system experience. This is a challenge since BurgerMax and Joe’s Coffee division accounts only 15% of the ACI’s Business activity and there is no separate dedicated IT team for these systems.

Recommendations

- The best strategy will be a two-phase process to integrate the IT systems.
  - Phase 1: Create a bridge between the existing systems in the companies and maintain the business continuity
  - Phase 2: Bring all the systems into a single hardware/software platform.
- Maintain all desktop computers with same OS so that multiple versions of software can be avoided, thereby reducing license cost for acquiring multiple versions of software.
  - Also make sure the desktop’s infrastructure is upgraded
- FSI can make a good platform company by following the below suggestions:
  - Since the IT systems in BurgerMax and Joe Coffee’s is advanced compared to Cream Corp, the financial application in Cream Corp can be migrated to oracle apps which is used in BurgerMax and Joe’s Coffee.
    - Use the structure and organization of Joe's and BurgerMax to track projects and assets.
  - As practiced in ACI, outsource payroll and HRIS: Integrate Cream Corp and BurgerMax/Joe’s Coffee’s company information into a single system.
  - New servers to host the applications for the entire enterprise.
  - Integrated IT systems will help reduce the IT system costs and maintenance costs.
- Go through the project lists for both organizations - only integrate and implement projects that are critical to FSI's future. Some projects will no longer be necessary once system's are integrated.

Working notes

- [1] 275,000 + 50,000 + 25,000 + 50,000 + 150,000 + 15,000 = $565,000 total
- [2] 48.67% to Staff Salaries (275,000/565,000), 8.85% to Hardware Maintenance and Depreciation (50,000/565,000), 4.42% to Software Maintenance and Licensing (25,000/565,000), 26.55% to Telecom/Data (150,000/565,000), 2.65% to Miscellaneous (15,000/565,000)
- [3] 9.75M*15% of the business = $1.5 M
- [4] 800,000 + 100,000 + 350,000 + 6,500,000 + 100,000 + 1,500,000 + 400,000 = $9,750,000 total
- [5] 8.21% to Staff Salaries (800,000/9,750,000), 1.025% to Hardware Maintenance and Depreciation (100,000/9,750,000), 2.58% to Software maintenance and licensing (350,000/9,750,000), 66.66% to Outsourcing including data center (6,500,000/9,750,000), 1.026% to Supplies (100,000/9,750,000), 23.07% to Telecom / Data (1,500,000/9,750,000), 4.1% to Miscellaneous (400,000/9,750,000),
- [6] Key Quotes, Case Study pg. 5
- [7] Management Section for ACI IT Department, Case Study pg. 4