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HOUSE OF LASAGNA: GROWTH AND EXPANSION FIX

Maria Luisa Chua Delayco, Sandeep Puri, and Babak Hayati wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In November 2018, Jannah Chua Torres, co-owner of House of Lasagna (HOL), a chain of casual dining restaurants in the Philippines, was considering different marketing strategies to increase customer awareness of the chain’s brand and unique menu. Torres’ discussions with co-owners Erick Congmon and Yasmin Unda had brought several new ideas forward. While HOL’s menu was attractive and unique, unlike other Italian restaurants, it was the only chain of restaurants serving affordable gourmet lasagna in the Philippines. The company had seven restaurants as of November 2018 and a target of 25 restaurants by 2020. It was an ambitious target for the company that opened only seven restaurants over the last nine years.

Torres was also concerned about the customer satisfaction survey conducted every year. The survey had revealed some interesting findings about the brand, including high customer satisfaction but comparatively low brand awareness. High customer satisfaction was important in the restaurant business, but Torres knew that brand awareness was critical for future growth plans. What marketing strategies could HOL use to increase its brand awareness? Considering that the company was planning to open new restaurants and expand into other areas in the Philippines, Torres was thinking about future growth and expansion strategies and a possible loyalty program to increase customer retention.

HOUSE OF LASAGNA

Congmon, Torres, and Unda established HOL in February 2009 with an initial investment of ₱1 million[[1]](#footnote-1) and four employees. It started in Congmon’s house in Little Baguio, San Juan when he made his own recipe for lasagna and accepted personal orders from friends and neighbours. The timing was perfect since the area was growing to be a place for hip restaurants. Torres said, “As the street developed, we wanted to take advantage so that foodies will notice and see it [HOL] as a new find for food concepts.”[[2]](#footnote-2) When HOL eventually became popular among its customers, Torres stated, “We found a niche with those recipes. People like our recipe for lasagna.”[[3]](#footnote-3) This was the group’s first food business venture, so it had some problems in the beginning with suppliers, work force, and management. “We pooled in our personal money for capital when we put up our first branch. We were just three friends putting up resources together,” says Torres. They integrated their individual strengths to form a strong team. Chef Congmon was heading the kitchen and food development; Torres, who also had a corporate events agency, was the marketing and franchise director; Unda was in charge of quality control and operations. Thus, these challenges were eventually resolved. In November 2018, they had seven restaurants (four owned and three franchised). HOL closed the financial year 2017 with sales of ₱452.6 million and a growth of 16 per cent over sales in 2016 (see Exhibit 1). HOL attributed its growth to its unique menu, product quality, customer service, and franchising activity.

The Value Proposition

HOL belonged to the casual dining segment. It catered two markets: families with young kids who belonged to the middle and higher classes, who liked to go out to eat, and families with young kids who belonged to lower classes, who patronized HOL for special occasions like birthdays and anniversary parties. HOL’s marketing strategy was best caught by its “Enjoy Lasagna” mantra, as it was among the few local places specializing in lasagna. The company created an “experience” around the consumption of lasagna and had three components to its marketing strategy—the finest in food, service, and ambiance.

The first component was the lasagna itself. HOL prided itself on offering what it believed to be the best-tasting lasagna with lots of variety at economical prices. The various products on the menu came from generations of family recipes, and were made with fresh, premium ingredients. The second component was excellent customer service, or what Torres referred to as “customer relationships.” “Our goal is to create a unique and enriching experience every time customers enter our restaurants,” explained Torres. “Some of our loyal customers visit us as often as five to seven times a month, and our service staff is encouraged to recognize them, know their choice of lasagna, and customize it the way they want it.” In addition, HOL offered its customers telephone booking, takeaway, and free parking as well as special arrangements for parties.

The third component was the restaurant ambiance. “Our customers come here for the lasagna,” explained Torres, “but the restaurant ambiance is what makes them want to stay here.” HOL had seating areas to encourage lounging, and layouts were designed to provide an upscale yet comfortable dining experience for the customers (see Exhibit 2).

The Staff

In November 2018, HOL had 45 employees. Two chefs in every restaurant were trained to provide customized dishes. Employees were trained on soft skills to offer superior customer service and on hard skills such as learning how to serve food and use the computer for billing in the absence of the restaurant manager. Torres expected employees to remember the names of their regular customers and to offer the best customer service, even if it required going beyond company rules. Staff were told to change the dish immediately following the smallest customer complaint. They were provided with competitive salaries and food and were also given incentives such as movie tickets and gift coupons on various occasions. All employees were given a day off as the owners wanted to ensure that all the employees got to spend time with their family members.

MARKETING MIX

Product

HOL had several variants for its lasagna including beef, truffle mushroom, chicken, vegetable, carbonara, alfredo, three cheese, pesto, seafood, and frederico, which was made with 100 per cent Angus beef (see Exhibit 3). Among these offerings, 80 per cent of the sales were derived from the beef lasagna. Torres said, “Our lasagna’s taste stands out among the rest because of Chef Erick [Congmon]’s own recipes. Customers are assured of our consistent quality and huge serving proportions. We won’t change our products, we’ll just improve more.”[[4]](#footnote-4) The menu included southern fried chicken, which was the champion product of Sunburst Fried Chicken, a chain of restaurants in Visayas and Mindanao, owned by Chef Congmon’s family. To complete the offering, the restaurant also had soups, salads, main dishes, and a Chef’s Pasta section that included spaghetti and meatballs and baked macaroni and cheese. Torres said, “Our core products are our lasagna and southern fried chicken. We believe it’s crucial to have a simple menu for that strong branding.”

Price

Torres said, “We’re the only one serving gourmet lasagna in the Philippines which is affordable, unlike other Italian restaurants. We serve freshly-baked lasagna that customers can afford.”[[5]](#footnote-5) The company followed a mid-pricing strategy. The menu started with products as economical as ₱55. The products were offered in three sizes: single, half tray, and full tray. The average check for dining for two was ₱700.

Place

In November 2018, HOL had four company-owned restaurants and three franchised restaurants. Each branch had 10 employees that enabled HOL to accommodate two time shifts. The company followed the three Cs (come-in, click, call) strategy.

Come In: These restaurants were located in the main malls of Manila, with high foot traffic. HOL also had a presence in Shanghai, China. The Shanghai branch came about when Congmon’s childhood friend, who was already operating an ice cream store in Shanghai, saw an ideal location for a food stall and seized the opportunity to open an HOL branch there. HOL Shanghai was not patterned after the HOL branches in the Philippines because of the different taste preferences of Chinese customers. The menu was customized to the Shanghai market, which consisted of Chinese and international consumers.

Click: HOL used Foodpanda and Honestbee for online orders and delivery. According to Torres, these options were more useful in the initial period because these channels helped increase brand awareness. However, these delivery systems came with a price. They took a share of 20 to 25 per cent from gross sales. Therefore, HOL eventually switched to using its own delivery system for all orders. The company offered home delivery within 30 minutes of the order being placed, with a minimum order value of ₱500.

Call: HOL offered telephone booking for regular and home delivery orders. To save time, customers could also place an order before their arrival at the restaurant. This also helped HOL to offer fast service to its customers. HOL used motorcycle riders for its own delivery system on phone-in orders anywhere in Metropolitan Manila. These riders also multi-tasked in the branches to help with the delivery system. “We want customers to think of us first, so we accommodate orders for deliveries, and you don’t have to call a day in advance. You can order and have the freshly baked lasagna delivered on the same day,” said Torres.

Promotion

The company was not spending heavily on promotion as management felt that marketing was not the major driver of sales. The brand name itself served as an advertisement for HOL. Promotional activities were done through digital communication and on-site ads. The company relied on Facebook as a primary marketing driver to increase brand awareness. Its two online order and delivery partners—Foodpanda and Honestbee—also helped increase brand awareness. HOL’s on-site advertising helped communicate with customers and promote various special events such as Lasagna of the Day, Valentine’s Day Special, Christmas with HOL, Weekend Special Menu, Mother’s Day Treat, and Graduation Celebrations.

CUSTOMER SATISFACTION SURVEY

HOL had been measuring customer satisfaction regularly since 2015. The company encouraged customers to rate its restaurants for customer service, food quality, pricing, brand awareness, and overall customer satisfaction (see Exhibit 4). These surveys had helped the company improve its performance in the different parameters in the last three years. Torres was happy with all the ratings of different parameters except for brand awareness. Although brand awareness had improved from 50 per cent in 2015 to 70 per cent in 2017, it was still low from Torres’ perspective; her goal was to achieve a brand awareness rate of around 85 per cent by 2020.

FOOD INDUSTRY IN THE PHILIPPINES

The food service industry in the Philippines had been continuously growing in recent years, driven by the increasing purchasing power of the Filipinos and lifestyle changes with increasing urbanization. The Annual Survey of Philippine Business and Industry released by the Philippine Statistics Authority in November 2018 showed that about 7,000 restaurants accounted for the highest number of establishments in this sector, followed by fast food chains (about 5,000), refreshment stands, kiosks, and counters (about 4,000). The food service sector generated around ₱500 billion annually and hired around 500,000 workers.[[6]](#footnote-6) However, a falling peso against the U.S. dollar could affect the profitability of the companies in this sector because of a rise in inflation. This could also affect the income of the Filipino consumers.[[7]](#footnote-7)

Growing urbanization in the Philippines was bringing about busy lifestyles that encouraged the population to dine out or order takeaway or home delivery. In 2018, Filipinos living in key cities faced worsening transportation issues, which spurred the growth of takeaway or home delivery outlets.[[8]](#footnote-8) Filipino middle-income households, on average, spent about 20 per cent of their income on outside food.[[9]](#footnote-9) In addition, almost one-third of the population in the country was comprised of millennials, who were seen as the biggest spenders in the food service sector. According to Mordor Intelligence, the Philippines food service market was expected to grow at a compound annual growth rate of 6.18 per cent during the forecast period 2018–2023. This market was driven by the increasing number of value-conscious customers who were willing to experience new restaurants with a range of menu options, including international and local cuisines.[[10]](#footnote-10)

Major Competitors

HOL considered Pancake House, Conti’s Bakeshop and Restaurant (Conti’s), Mary Grace Café, and Mom & Tina’s Bakery Café as its major competitors (see Exhibit 5).

*Pancake House*: Pancake House was founded in 1974 and had more than 100 franchise branches domestically and overseas (52 in the Philippines) in 2018. It was among the most popular casual dining brands in the Philippines, serving a variety of dishes including breakfast, soups and salads, and desserts, among others. The average order size at the restaurant was ₱800 for two people, and customers also had the option to order online for home delivery. Pancake House belonged to Max’s Group of companies and was heavily promoted through both offline (e.g., billboards, magazines) and online (e.g., blogs, social media) platforms.[[11]](#footnote-11)

*Conti’s*: Conti’s was established in 1997 and had 14 branches in 2018. The menu was composed of pasta, sandwiches, salads, and desserts, among others. Conti’s was considered a premium casual dining restaurant and the average order size was around ₱1,500 for two people. The restaurant offered online ordering and delivery as well as a drive-through service in certain branches. Promotion was conducted offline through traditional channels and online, mainly through Facebook.[[12]](#footnote-12)

*Mary Grace Café*: Established in 1994 and operating 33 cafés and 12 kiosks, Mary Grace Café served a variety of dishes including pasta, salads, and desserts. The average order size was ₱500 for two people, and the restaurant offered online ordering and home delivery through third party websites. Mary Grace Café promoted itself through online and offline channels.[[13]](#footnote-13)

*Mom & Tina’s Bakery Café*: This restaurant chain started mainly as a bakery in 1996 and expanded its menu into breakfast, sandwiches, pasta, and desserts, among others. It had four branches in 2018 and offered online ordering and delivery through third party websites. The average order size at the restaurant was around ₱900 for two people. Mom & Tina’s Bakery Café mainly advertised online through Facebook.[[14]](#footnote-14)

EVOLVING FILIPINO CUSTOMERS

In 2018, with a population of about 107 million, the Philippines was the 12th most populated country in the world with an annual growth rate of 1.7 per cent. The population of Greater Urban Manila was about 22.7 million people, which was about a quarter of the country’s population.[[15]](#footnote-15) The Philippines had a young population and about a third of the population belonged to the millennials group.[[16]](#footnote-16) In the Philippines, millennials were known to be the biggest spenders on dining out in restaurants.[[17]](#footnote-17)

Research by the Philippines Statistics Authority in 2018 reported that only three out of 20 Filipino households belonged to the middle class, as defined by an average monthly income between ₱12,000 and ₱50,000.[[18]](#footnote-18) Middle-income consumers were spending about 35 per cent of their income on food, compared to 21 per cent of high-income consumers (with monthly income of ₱50,000 and above). Growing urbanization in the Philippines’ major cities had brought about lifestyle changes that affected the food consumption of city dwellers. The urban Philippine customer was living a fast-paced lifestyle, which was exacerbated by traffic conditions.[[19]](#footnote-19) The busy lifestyle of the young Filipino workforce and increasing traffic and transportation costs were motivating these young people to choose dining out, take away, or home delivery for their food more often than before.[[20]](#footnote-20) Moreover, food trends in 2018 indicated growth of the food-on-the-go segment with growing appreciation for healthy living and innovative cuisine.[[21]](#footnote-21)

The Philippines was the world leader in social media usage. An average Filipino spent about three hours and 57 minutes per day on social media, mainly on Facebook. Moreover, there were about 10 million Instagram users in the country, especially among the younger demographic. In 2018, Internet penetration was around 63 per cent, and more than half of the population accessed the Internet through mobile devices.[[22]](#footnote-22)

THE WAY FORWARD

The food retailing industry was growing in the Philippines, and HOL set an ambitious target of having 25 restaurants by 2020. The company was also considering a centralized warehouse for sauces to support its expansion plans and was following a mixed strategy of having company-owned restaurants and franchising. Torres was thinking that having more company-owned branches would entail a huge capital investment, whereas the franchising option would allow for evaluation of franchise owners, who would be brand ambassadors for the HOL brand. The cost of opening a new outlet or franchise was ₱5.5 million, and the usual franchise fee in the area was around 5 per cent of net revenue. Monthly sales of ₱1.2 million were required to make franchising a profitable venture. It was also important for the company to increase brand equity, so the selection of the right franchising partners was crucial. The company was using only Facebook as a digital marketing platform; however, Torres was considering different marketing strategies for HOL to use to increase its brand awareness, including a possible loyalty program to increase customer retention and customer engagement.

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Exhibit 1: SELECTED FINANCIALS FOR House Of Lasagna, 2013–2017 (in ₱ million)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** | **2016** | **2017** |
| Net Revenue | 235.2 | 285.6 | 337.2 | 389.2 | 452.6 |
| Cost of Sales | 64.7 | 79.2 | 89.5 | 105.6 | 121.4 |
| Operating Expenses | 95.1 | 116.4 | 139.7 | 161.4 | 185.8 |
| Other Income (Loss)\* | 7.3 | 8.9 | 11.5 | 14.7 | 19.2 |
| Net Income | 82.7 | 98.9 | 119.5 | 136.9 | 164.6 |

Notes: \*Includes gain (loss) on equity investments, settlement income, benefit (provision) for income taxes, cumulative effect of changes in accounting principles, and other income; figures have been changed to maintain confidentiality.

Source: Provided by the company.

EXHIBIT 2: INTERIOR Dining Area at House Of Lasagna



Source: Provided by the company.

**EXHIBIT 3: MENU CARD OF House Of Lasagna (IN ₱)**

**A close up of food

Description automatically generated**

Source: Provided by the company.

**EXHIBIT 4: CUSTOMER SATISFACTION SURVEY (in %) for 2015–2017**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Overall Customer Satisfaction** | **Customer Service** | **Food Quality** | **Pricing** | **Brand Awareness** |
| 2015 | 88 | 89 | 92 | 85 | 50 |
| 2016 | 92 | 92 | 93 | 86 | 64 |
| 2017 | 94 | 95 | 95 | 89 | 70 |

Source: Provided by the company.

EXHIBIT 5: MAJOR COMPETITORS OF House Of Lasagna

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Product Portfolio** | **Price for Two People (₱)** | **Place** | **Promotion** |
| Pancake House | Pancakes, breakfast, soups, salads, main courses, snacks, special sets, desserts, kids’ meals | 800 | 52 restaurants, online ordering, dine-in, delivery | Online magazines, blogs, online advertisements via social media (Facebook) |
| Mary Grace Café | Pasta, breakfast, salads, specialties, desserts | 500 | 33 cafés and  12 kiosks, dine-in, delivery, online ordering (through third party websites) | Online advertisements via social media (Facebook), blogs |
| Conti’s Bakeshop and Restaurant | Pasta, sandwiches, salads, desserts, big orders, packed meals | 1,500 | 14 restaurants, online ordering, dine-in, delivery, drive-through | Online advertisements via social media (Facebook) |
| Mom & Tina’s Bakery Café | Starters, breakfast, sandwiches, pasta, main dishes, desserts | 900 | 4 cafés, dine-in,  delivery, online ordering (through third party websites) | Online advertisements via social media (Facebook) |

Source: “Welcome to Pancake House,” Pancake House, accessed November 7, 2018, www.pancakehouse.com.ph/about; “Pancake House, Metro Manila,” Zomato, accessed November 18, 2018, www.zomato.com/manila/restaurants/pancake-house; “The Success Story of Mary Grace Cafe: How a Stay-at-Home Mom’s Kitchen Transformed into a Popular Cafe,” Business News Philippines, accessed October 23, 2018, www.businessnews.com.ph/success-story-mary-grace-cafe-stay-home-moms-kitchen-transformed-popular-cafe-20170609/; “Mary Grace, Metro Manila,” Zomato, accessed November 18, 2018, www.zomato.com/manila/restaurants/mary-grace-1; “Our Story: Forever Sharing Joy from Our Home to Yours,” Conti’s Bakeshop & Restaurant, accessed August 7, 2018, www.contis.ph/shop/our-story; “Conti’s, Metro Manila,” Zomato, accessed November 17, 2018, www.zomato.com/manila/restaurants/contis; Joko Magalong, “Meet Tina of Mom and Tina’s Bakery Cafe,” ABS CBN News, August 23, 2016, accessed November 19, 2018, http://news.abs-cbn.com/life/08/23/16/meet-tina-of-mom-and-tinas-bakery-cafe; “Mom & Tina’s Bakery Cafe, Metro Manila,” Zomato, accessed November 18, 2018, www.zomato.com/manila/restaurants/mom-tinas-bakery-cafe.

1. ₱ = PHP = Philippine peso; US$1 = ₱52.43 on November 30, 2018; all currency amounts are in PHP unless otherwise specified. [↑](#footnote-ref-1)
2. Princess Daisy C. Ominga, “House of Lasagna,” Inquirer.net, July 27, 2014, accessed November 2, 2018, http://business.inquirer.net/175446/house-of-lasagna. [↑](#footnote-ref-2)
3. Ibid. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. Ibid. [↑](#footnote-ref-5)
6. “Annual Survey of Philippine Business and Industry (ASPBI),”Republic of the Philippines: Philippine Statistics Authority, May 2,2017, accessed November 8, 2018, https://psa.gov.ph/statistics/survey/business-and-industry/aspbi. [↑](#footnote-ref-6)
7. Cliff Venzon, “Philippine Consumer Companies Hit by Rising Inflation and Weak Peso,” Nikkei Asian Review, August 16, 2018, accessed January 2, 2019, https://asia.nikkei.com/Business/Companies/Philippine-consumer-companies-hit-by-rising-inflation-and-weak-peso. [↑](#footnote-ref-7)
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12. “Our Story,” Conti’s Bakeshop and Restaurant, accessed November 26, 2018, www.contis.ph/shop/our-story. [↑](#footnote-ref-12)
13. “The Story of Mary Grace,” Mary Grace Foods, Inc., accessed November 25, 2018, http://marygracecafe.com/about-us/. [↑](#footnote-ref-13)
14. “Who We Are,” Mom & Tina’s Bakery Cafe, accessed November 8, 2018, www.momandtinas.com/who-we -are/. [↑](#footnote-ref-14)
15. “Philippines Population,” Trading Economics, accessed June 24, 2019, https://tradingeconomics.com/philippines/

    population. [↑](#footnote-ref-15)
16. The term “Millennial” generally referred to the generation of people born between 1980 and 2000. [↑](#footnote-ref-16)
17. Jasper Y. Arcalas, “Food Service Sales in PHL seen Breaching $14B,” BusinessMirror, October 29, 2018, accessed June 17, 2019, https://businessmirror.com.ph/2018/10/29/food-service-sales-in-phl-seen-breaching-14b. [↑](#footnote-ref-17)
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19. Anna Bueno, “6 Pinoy ‘Food Trends’ to Watch out for in 2018,” CNN Philippines: Life, January 11, 2018, accessed December 7, 2018, http://cnnphilippines.com/life/leisure/food/2018/01/11/6-pinoy-food-trends-for-2018.html. [↑](#footnote-ref-19)
20. Ibid. [↑](#footnote-ref-20)
21. Ibid. [↑](#footnote-ref-21)
22. Miguel R. Camus, “Headlines: PH Is World Leader in Social Media Usage,” Inquirer.net,February 15, 2018, accessed November 19, 2018, https://business.inquirer.net/246015/ph-world-leader-social-media-usage. [↑](#footnote-ref-22)