Ken Greene: A Decision for the Future

It was a typically cold winter evening in Rochester, NY when Ken Greene pushed back his chair from the table in his office and began to ponder. Greene, the largest franchisee of Bruegger’s Bagels, owns 35 successful bagel bakeries throughout the Upstate and Western NY region. Normally, he might be focused on looking over his schedule for tomorrow or returning e-mails, but tonight he is thinking about the future.

Growth in the bagel market has been flat. He realizes that the benefits to reinvesting profits into the expansion of his bakeries have begun to fade. The question is where to go from here? Ken knows he has gained certain skills that would allow him to be successful in a number of different facets of the restaurant business. He could become a franchisee of another system. He could develop a new restaurant or work in the acquisition/development of restaurant real estate. There are several seemingly feasible options available. But which option is the right one for Ken and his management team? One thing is very clear- his happiness and career rest on the answer to that question.

The Evolution of a Restaurant Entrepreneur

The restaurant industry is not something new to Ken Greene. In fact, he has worked in the business his entire life. His first job was at the age of 16 as a dishwasher at Howard Johnson's. At Syracuse University, where Ken studied Finance, he ran a restaurant on campus called Buggsy’s. After college, Ken went to work for Delaware North- a multinational restaurant company based out of Buffalo, NY. Delaware North specializes in providing food and hospitality services for companies around the world. There, Greene was in charge of menu planning and new product development. Ken states that while working for Delaware North he learned how to manage a successful restaurant chain from a single location. He exclaims, “It was my master’s degree in restaurant management .”

In 1986, Ken met the founders of Bruegger’s Bagels- Nord Brue and Mike Dressell. Brue and Dressell were looking for an operating partner to oversee their bagel bakeries in the Albany, NY region. Ken agreed to become their operating partner in exchange for a 20% equity stake in the Albany restaurants. Ken admits that the growth of the company was slow at first. He points out, “It took us 10 years to get to the first hundred stores and only 10 months to get to the second hundred.” After Ken joined Bruegger’s, they skyrocketed from 11 locations in the mid-eighties to between four and five hundred by the mid-nineties. Together with Brue and Dressell, Greene helped build the upstate NY market into a 35 store chain. Nationally, Bruegger’s quickly became the largest chain of retail bagel bakeries.

Unfortunately, Bruegger Corporation’s success was overshadowed with financial problems. In an attempt to maintain its competitive edge and tap the public equity markets Brue and Dressell sold Bruegger Corporation to a publicly traded company...
called Quality Dining. The transaction, originally titled a success, quickly became a failure. Consequently, the shareholders of Quality Dining lost 75% of their original value. Brue and Dressell enlisted the help of Ken and the rest of their company. Together, they decided to repurchase the assets of Bruegger Corporation from Quality Dining and take the corporation private.

After the Quality Dining debacle Bruegger Corporation was left hurting for cash and desperately needed to sell some of their assets. Ken approached Brue and Dressell and offered to trade his shares in the corporation in exchange for all of their assets in the Upstate and Western NY region. Brue and Dressell agreed. Ken, now owner of the bakeries, became the largest franchisee of Bruegger’s. He explains that the transaction offered “a smaller, more contained environment that had less risk and could be more isolated from any problems that occurred with Bruegger’s on the national front”.

Meanwhile, the number of bagel bakeries in the US jumped from 1000 to 6000 in a three year period. However, bagel consumption was not growing at the same pace. Competition in the bagel business was increasing and profit margins were decreasing. Because Ken developed his bagel locations in the NY area before competition emerged, he had a dominant position and most competitors left the region due to low margins. The bagel market in the NY region was becoming saturated and growth opportunities began to dwindle. Ken was faced with the unnerving decision over what to do next.

Ken Greene is not the type to sit down at a card game without a few aces up his sleeve. He knew that he had certain core competencies that could harvest growth in a new venture. Together, with the aid of his management team, he has founded, developed, and constructed 35 retail stores. “We really understand the Upstate NY territory very well and have relationships with many landlords in those markets.” Greene has also hired, trained, and retained qualified candidates to manage and run those retail locations. He is able to execute a Bruegger’s concept at his retail locations with precision and has manufacturing and distribution experience. Ken owns two manufacturing plants that make and distribute the raw dough for bagels. He sums up the expertise of his team by saying, “We have a discipline for being manufacturers and distributors of specialty food Products.”

Given the experience of Ken and his management team, their number of options was seemingly endless. Ken could try to break into the real estate business, but his geographic experience was limited. He could develop his own restaurant concept, but had never had any success in coming up with a feasible idea. He could become a franchisee of another restaurant system, but he wanted to break free from the restrictions on control and creativity that a franchisee must bear. Ken wanted to find something where he could use all of his core competencies to his advantage.

A Moment of Revelation

Going to the gym to stay in shape and let out some steam from the pressures of running his bakeries was a weekly routine for Ken. During the course of his normal workouts, Ken met and befriended two young up-and-coming entrepreneurs named Rob and Chris Desino. The twin brothers had started a pizza business that had grown to five locations throughout the Rochester, Buffalo, and Syracuse regions. While at the gym
Rob and Chris would talk with Ken about their pizza venture. Ken was never the type to shy away from the opportunity to help a fellow entrepreneur, and had followed Rob and Chris’s progress as they developed their restaurants.

Rob and Chris were the owners of Great Northern Pizza Kitchen. Great Northern is not your typical pizza parlor. Ken likes to think of Great Northern as a “fast-casual pizza-by-the-slice business”. Great Northern specializes in offering gourmet pizza by the slice at the speed of a fast-food restaurant. However, anyone that has ever been to Great Northern would know that it is most certainly not your typical fast-food restaurant. It features an upscale dining room and higher quality food. Yet it differs from a typical casual restaurant in that the customer orders his food at a counter and then retrieves it himself when it’s ready. Great Northern has taken the convenience of fast-food and combined it with the taste and ambience of a casual dining experience.

Rob and Chris’s most recent conversations with Ken have been about their desire to take Great Northern to a higher level. The Desino’s would very much like to expand their business. However, neither one of the brothers has the experience or desire to be the leader of a large organization. They debated over whether or not to hire an outside president but were fearful that Great Northern might lose its culture under a leader who was unfamiliar with their organization. Suddenly, an idea flashed in the mind of Ken Greene: both their companies could benefit if he purchased Great Northern.

It was a brilliant idea. The Desino’s immediately began to envision the benefits to their organization from selling a majority share to Ken. Ken’s experiences in the restaurant industry could be just what Great Northern needed to expand and flourish. Rob and Chris knew that Ken could help grow their business without sacrificing the unique culture that the Desino’s had built and cherished. They relished the idea of being part of an expanding company without any of the responsibilities of a leadership position. Ken began to realize that the transaction could be the perfect opportunity for himself and the Bruegger’s management team to leverage their abilities in the restaurant industry. “When I looked at what Great Northern needed as an organization to develop multi-unit specialty restaurants in the fresh dough business, I saw a host of complements with Bruegger’s.”

An Acquisition to Remember

Despite the excitement of both Ken and the Desino’s a deal was not immediately made. Ken needed to explore the market potential of Great Northern before exposing himself to such risk. He analyzed Great Northern’s competitive position and uncovered some impressive information. A Great Northern restaurant produces three times the regional sales average for a pizza restaurant and one-and-a-half times the national sales average. Its locations can be built as few as 5 miles apart and remain competitive with other local and national pizza restaurants. It is capable of successfully replicating itself outside its home territory of Rochester. The research also indicated that Great Northern conducts half of its business during the lunch period whereas most pizza restaurants perform 80% of their business during the dinner hours. Ken theorizes that Great Northern has been able to break into the lunchtime pizza business because they offer a wide variety of gourmet pizzas by the slice in a timely fashion. They also offer a vast selection of salads and soups for those customers preferring a healthy option. The results
were positive. Yet Ken knew all too well that an unsuccessful transaction could be pricey. “If I’m not right, the mistake will cost millions.” He decided the risk was worth the reward. Ken Greene and the Desino’s shook hands and the deal was complete.

Ken enjoys his current position as CEO of Great Northern and looks forward to leading the company to future success. “In Bruegger’s I’ve got a restricted area, restricted freedom, and I have to pay 5% of my sales to the franchisor. At Great Northern I have no restrictions and I adapt all of my creative juices without paying for it.” Ken has also seen some of the immediate benefits of the acquisition for both companies. Great Northern is in a period of immense growth whereas the Bruegger’s franchises are a model for stability. It creates an opportunity for those managers within the Bruegger’s environment who crave growth opportunities to switch into the Great Northern environment and vice versa.

If you ask Ken to describe why Great Northern has been successful he says, “When you walk into Great Northern you feel this energy, excitement, and enthusiasm and you look around and there’s a sort of buzz.” Regardless of the reason, Ken knows that if Great Northern’s success in the Upstate and Western NY markets is indicative of its capabilities, then he can expect its expansion to skyrocket. Ken’s short-term goal is to build 50 company owned locations and 50 franchised locations over the next five years. Only time will tell if consumers’ demand for pizza can match Ken’s enthusiasm to make it.
Questions:

1) If you were Ken Greene, what would your decision tree look like when deciding whether or not to acquire Great Northern?

2) What value was created for Ken and his management team through the Great Northern acquisition?

3) What benefit did Rob and Chris Desino gain from the transaction?

4) Describe one action that you believe Ken Greene should perform after the acquisition to help facilitate the success of Great Northern.