

# Pizza Today

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### Proud Papa



Jeremy White

#### ***Papa Murphy's our Chain of the Year - Again!***

For the third time in eight years, Papa Murphy's Take 'N' Bake Pizza is our Chain of the Year. The Vancouver, Washington-based company posted stellar results over the past 12 months - numbers made all the more impressive by the fact their other national counterparts turned in weak performances, by and large.

To date, Papa Murphy's has 1,073 stores and tallied \$502.3 million in gross sales in 2007. Ranked No. 10 on our annual Top 100 Companies list, Papa Murphy's is the nation's largest take-and-bake chain and will grow to the tune of 160 stores in 2008. By the company's past standards - though it did open 119 last year - that's



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fast growth. Still, says CEO John Barr, the expansion is not overly aggressive.

"We're sticking with controlled growth," he said during *Pizza Today's* visit to the company's headquarters in March. "We think we're doing it smartly. We only had 20 stores close last year, and the majority of those were in Wal-Marts. Twenty is too many, but you take a look at the chains over 1,000 stores and it's pretty positive."

Barr's allusion to the company's venture into Wal-Mart stores is one of the few blemishes on the sterling Papa Murphy's resume of late. The company had been looking for a non-traditional growth outlet and thought it found a home run when it began pairing with Wal-Mart, but the move turned out to be less than desirable.

"Our pilot tests on the non-traditional side didn't work out as well as we hoped," Barr explains. "When we went with Wal-Mart, that just didn't work out as well as we thought it would. It's taken a bit of time to recover from that. We thought, 'Gee, we're going to be in every Wal-Mart.' Of course we never could have been in all of them, but we thought we were going to be in a lot of them and there was just such a tremendous opportunity to feed off that traffic. But the Wal-Mart buyer is different from our buyer. We did a lot of research on it. One of the issues is that those stores are so busy and so congested. You look over at the counter and here's a woman with a basket and a couple of kids hanging off and ice cream in there ... the last thing she's going to do is stop and get a pizza. So we think that's some of it. But also they were aggressively going after their take-and-bake product, which was bigger than ours and cheaper than ours, and they were doing sampling. McDonald's is not successful there, either."

In the end, Barr says he takes the blame but that he doesn't regret giving it a shot. "Would you do it again?," he asks. "No. But you'd always wonder if you didn't do it, 'Would it have been a tremendous growth platform for us?' And I still think there's a non-traditional setting for us out there. We've just got to find the right partner."

**For now, though, the emphasis remains on servicing existing stores and targeting steady growth.** Jerry Kenney, senior vice president of corporate operations, says the company is comfortable with the 160-store pace it has set for 2008.

"This year will be our biggest year, but our base is also larger than it's been," he explains. "We need to take a look at our infrastructure. We don't want to grow beyond our ability to support new stores. We don't want to grow faster than the franchisees are ready to grow. The last thing we want is to open a store with someone who is not ready either operationally or financially. We could probably grow it faster, but we'd like to grow it a little smarter and make sure everybody is successful."

Kenney says the senior leadership at Papa Murphy's is cognizant of the need to "make sure we've got our staff out ahead of the growth." An important part of that equation consists of the company's DFOs - director of franchise operations. Currently, Papa Murphy's has 430 franchise entities serviced by 23 DFOs.

"They've all got a geographic area and they work with a number of franchise owners and stores," says Kenney. "We try to have it more closely aligned to how many franchise owners they work with as opposed to how many stores they work with."

That's due to the wide difference in store count between franchisees. Papa Murphy's has many single-store owners all the way up to franchisees with 30 or even 50 locations under their belts (there are 73 company-owned stores to date). Pete Fowler, vice president of supply chain management and business development, says the average is 2.25 stores per owner.

Much of the growth in 2008 will come from these very people. Says Kenney: "A good percentage of our new stores are from existing franchisees. Most of our growth is coming from successful owners who like the business and are good in the business. Because of that, an awful lot of our growth is in contiguous markets. Out where we started here in the west, there's very little growth. We've got 100 stores in Seattle and 75 or so stores in the greater Portland market, so there's not

a lot of growth west. Our growth has been east, and we've actually had a number of successful franchisees who have moved east and opened Papa Murphy's because they have an opportunity to grow."

The company is targeting several cities for growth in 2008 and 2009, including: Amarillo, Dallas, Fort Worth, Tyler, Longview and Waco in Texas; Denver; Fresno and Sacramento in California; Indianapolis; Kansas City and Springfield in Missouri; Milwaukee; Minneapolis; Oklahoma City; Phoenix; Reno and Salt Lake City.

**Growing with existing successful franchisees eliminates the question marks associated with bringing new franchisees on board, but avoiding the latter altogether simply isn't an option for a company on the grow.** Papa Murphy's attempts to hedge its bets with new franchisees by utilizing the aforementioned DFOs in the selection process. In fact, they often have the final say.

"The important thing for us is getting the right people with the right mindset and the right mentality, because this is a people business," Kenney says. "People have to want to work with young people and like to work with the public, and if they don't ... it's not a very good business to be in. We take all of our prospective franchisees through a rigorous process to make sure it's going to be a good match for them."

The process starts with a qualification report. From there, potential franchisees speak with franchise sales representatives and go through an interview and disclosure process.

"Ultimately," says Kenney, "they're approved by one of our operations people in the field. The DFO is the person that is going to work with the franchisee the most, day in and day out. We want to make sure from that point out that they say, 'Yes, I could work with this person. I like this person. I think we'll work rather well.' And then what we do, once they've gone through that process, we take them through what we call 'Phase I' training. It's not really training - we put them in a store for three days and have them do every dirty, rotten, stinkin' job we can throw at them. Because we would like to kind of scare them away. And we have had a couple of people after that initial three days say, 'You know what? It's not what I thought it was going to be. I don't know what I thought it was going to be, but it's just not what I thought it was going to be.' That's the best time to find out. The vast majority of people stick with it, and then there are also some times where we've had to say, 'You know what? You're really not our kind of people.' And usually, it's when someone doesn't engage the customer. They're kind of hesitant or they're not real good with a group. If I was going to get into a business, I would love it if someone were to say to me, 'You know what, I just don't think you're going to be right for this.' Great. Let me know now. Because after that, after they sign a franchise agreement and pay us the money, it's going to be too late. You're married now."

In terms of actual training, a first-time franchisee goes through five weeks of it. Four of those take place at a designated Papa Murphy's store location.

"We've got an excellent training department and we take all of our owners through training," Kenney says. "But we also require all the managers to go through our certified manager training program. A big part of the training is we concentrate on how to hire the right people, how to train them right, how to take care of them. That's a huge part of our focus. It's a big resource that both our operations field staff and our marketing field staff work with our franchise owners all the time. It's a team effort."

Jeremy White is editor-in-chief at *Pizza Today*.

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