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Chase Caverzagie

University of Nebraska - Lincoln

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A Strategic Audit of Runza Restaurants

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By
Chase Caverzagie, BS
Actuarial Science
College of Business

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Faculty Mentor:
Dr. Samuel Nelson, College of Business
University of Nebraska-Lincoln

Abstract

Runza is a well-known, Nebraskan restaurant. As Runza begins to expand, and a new generation of buyers approaches, it is important for Runza to examine the horizon and think critically about their future strategy. Runza will need to decide what their next steps will be to maintain a competitive advantage, and be successful for many more years to come. This strategic audit will look at the company's background, business model, the internal and external environment, and company strengths and weaknesses. Then, several strategy alternatives are proposed, with the selection and implementation plan of the best strategic alternative.

Background

Runza is a brand as synonymous with the state of Nebraska as the Huskers or Valentinos pizza.

Founded in 1949 by Sally Evertt and her brother, Alex Brening, in Lincoln, NE, they brought their signature Runza sandwich to the consumer market. Sally adapted her family's bierock recipe in to the modern Runza. Sally's son, Donald Everett Sr., joined the family restaurant in 1964.

Under his guidance, Runza begins to expand and incorporates the name Runza Restaurants in 1966. In 1979, Runza began their franchise business model, opening the door for more rapid expansion. By 1983, they had opened 20 locations.



The first ever Runza restaurant

Deepening their Nebraskan roots, Runza became an official partner of Nebraska Athletics in 2000.

Today, Runza is still run by the Everett family. Donald Everett Jr. is the current president of Runza Restaurants. They currently have over 80 restaurants across Nebraska, Iowa, and Colorado. Although still the namesake of the franchise, Runza has expanded their menu far beyond the Runza sandwich. Burgers, salads, chicken sandwiches, ice cream, cookies, and the infamous fring have all been added to the menu over the course of their 70-year history. Runza remains a key partner of Husker Athletics alongside the iconic Valentino's Pizza, serving as many as 15,000 Runzas per game to hungry fans inside Memorial Stadium each fall.

Situation Analysis

Business Model

Runza Nationals' business model is to provide fresh, highly quality, convenient food items to customers within a certain geographical area. They create customer value by providing these offerings at a reasonable price in a family friendly, locally focused restaurant environment.

Runza National receives revenue from several different streams. Primarily, they receive a 5% royalty of all 80+ stores' net sales. They also have a \$25,000 franchise fee for traditional units, and \$20,000 fee for non-traditional units. The franchise agreement lasts for 10 years before expiring, with the option for renewal.

The main inputs and resources required for Runza National include corporate sponsored training for employees, suppliers that produce their secret recipes for them, and talented corporate staff. Their major cost components include overhead costs for their corporate staff,

national advertising expenses, and other resources provided to local franchisees including equipment and proprietary software. The national advertising expenses are offset by a 1% fee of gross sales paid by franchisees for an Advertising Production Fund used for the development and execution of advertising and public relations campaigns. Franchisees are also expected to spend up to 4% of gross sales for advertising in their local market.

Internal and External Analysis

According to their website, Runza competes in the quick serve hamburger industry. Some of their direct competitors are McDonalds, Wendy's, Burger King, and Culver's. The most comparable competitor is Culver's as Culver's, much like Runza, competes on quality of product and the "from scratch" model instead of employing a low-cost strategy. Runza's main critical success factor is the iconic Runza sandwich. This distinctive menu item is their core competency as no other corporate restaurant offers the same menu item. Interestingly enough, another one of their most iconic menu offerings is their unique Runza ranch. They prepare many of their menu items from scratch each morning- something that many other large national corporate chains cannot say. This leads to their current competitive strategy. They compete on quality, unique menu offerings and brand image within the state of Nebraska.

One way to analyze the external environment around Runza is by a PEST analysis. The first element of this analysis is **Political**. Some political factors that affect Runza include food safety laws and regulations, especially in regards to them shipping their Runzas across the United States. Another political issue is the fact that they deal with the University of Nebraska-Lincoln and therefore are affected by the politics within the University. For example, in 2018 after a decade in the Nebraska Union, it was announced that Runza Restaurants was being replaced by

a different restaurant concept. This sparked a string of controversy on whether Runza deserved a spot in the Nebraska Union for being so deeply Nebraskan. The next element is **Economic**. The restaurant industry is known to have elastic demand, as consumers generally tighten spending during tough economic times. Therefore, in down economic times (especially concentrated in Nebraska), Runza franchises would likely have down sales. The next factor is **Social**. Externally, there is a push and trend towards eating healthy and being active. Obviously Runza is a fast food restaurant, so a health kick that hits popular culture could negatively influence sales. Finally, there is **Technological**. In many industries, including quick serve, there has been a push for automation and process efficiency. Instead of ordering at counters, customers order at computerized kiosks. Predictive analytics and artificial intelligence are uprooting “old school” processes, making businesses faster and more efficient. Runza will need to examine any new technologies that could be pertinent to their business.

A summary of a SWOT analysis for Runza is provided in the table below.

Runza Restaurants SWOT Analysis	
Strengths <ul style="list-style-type: none"> • Brand is deeply embedded in Nebraskan culture • High customer loyalty • Strong social media presence (76,000+ likes on Facebook, 9,000+ followers on Twitter) 	Weaknesses <ul style="list-style-type: none"> • Fewer locations than competitors • Does not have a breakfast menu
Opportunities <ul style="list-style-type: none"> • Expand in to markets outside of current offerings • New product innovation (ie new types of Runzas, salads, etc.) 	Threats <ul style="list-style-type: none"> • Consumer health kick • Ever-changing politics inside University Athletics • Changing consumer tastes • Millennials are eating out less

Strategy Alternatives

Evaluation Criteria

Before presenting strategic alternatives, it is important to define evaluation criteria. These criteria will be used to determine the potential success of each developed strategy alternative.

It is important that the criterion aim to address some of the identified weaknesses, opportunities, and threats currently posed to Runza. The selected evaluation criteria are presented as follows:

1. Increase net promoter score
2. Increase social media following and total online impressions made
3. Increase sales revenue, especially among Millennials and Generation Z

Evaluating these criteria as an external examiner will be difficult to monitor because Runza is a relatively small corporation that is privately owned. Statistics such as net promoter score and sales by age segment are not easily obtainable. Therefore, various assumptions will be used and those will be outlined when they arise.

These three evaluation criteria aim to reduce future market volatility by increasing customer loyalty, especially among the next generation of more health-conscious consumers. Net promoter score has been proven to be a leading indicator of growth, as well as a good metric to understand a company's overall customer experience (netpromoter.com). Increasing social media following and online impressions will help target millennials that no longer respond to

“traditional” advertising. For example, millennials watch 50% less TV than adults 35+ (O’Neil-Hart, 2016). 84% of Millennials do not trust traditional advertising (Arnold, 2018). Finally, increasing sales among millennials and generation Z will help Runza be ahead of the curve when it comes to earning sales from the next generation of consumers. Why focus on Millennials? By 2020, Millennials will spend over \$1.4 trillion annually, and by 2030, there will be 22 million more Millennials than Non-Millennials (Chappal, 2017).

Strategy Alternatives

Part of a strategic analysis is to examine current business practices, and make alternative strategic recommendations. This analysis will examine three strategic alternatives from which to pick from:

1. Stay the course – Maintain their current strategic plan, while monitoring the horizon for potential opportunities and threats in the future.
2. Expand – Runza remains regionally focused with a heavy emphasis in Nebraska.
Expanding operations beyond Nebraska’s borders could provide new growth. Also, expanding menu items and offerings can lead to new product innovation.
3. Increase Marketing to Millennials and Generation Z – Runza is a brand that many Nebraskans have grown up with. But, with changing media tastes, targeting efforts on Generation Z and Millennials could pay dividends in the long run for the company.

Stay the Course

This strategy is simple: Runza National continues to do what they do. Runza is strong and strategic in their current offerings, especially among Nebraskans. Because Runza is over 60 years old, every Millennial that has grown up in Nebraska has been exposed to the brand in one fashion or another. Furthermore, Runza's partnership with Nebraska Athletics creates exposure for the more than 25,000 students at the University of Nebraska-Lincoln.

Runza also has current plans for slow and steady expansion. They are actively seeking franchisees in 10 Nebraska cities, 3 Iowa cities, 4 Kansas locations, and 1 location in Colorado. This slow and steady expansion process ensures that Runza can maintain quality control and product consistency as stores move further and further away from its Lincoln, NE headquarters. As pointed out in the situational analysis, Runza takes great pride in the quality of ingredients and in-store freshly prepared food.

Also mentioned earlier in the SWOT analysis, Runza has a strong social media presence. Their marketing department runs creative social media promotions, often exchanging likes, follows, retweets, or comments for Runza gift cards and merchandise. This type of promotion results in increased reach, potentially to



customers that do not follow Runza social. It is also relatively cost effective as the postings themselves cost no money, Runza just has to pay for and provide the giveaway merchandise. A potential disadvantage of this type of marketing is that it is not targeted, and winners of the promotion could potentially live outside the geographical service area of Runza.

Expand

Runza Restaurant locations are densely populated in Nebraska. Aggressively expanding beyond Nebraska's borders in to the Midwest and beyond would open new market frontiers. In doing so, Runza could achieve evaluation criteria one and three. By bringing their Nebraskan hospitality and branding outside of Nebraska, Runza could compete well in other states with more national chains by offering better service and more quality ingredients. A unique product in the Runza could also bring more interest from out of state customers. Ultimately, satisfied customers increase the net promoter score, and subsequently indicate the potential for further

growth. Opening to new markets also will increase sales more dramatically. Although not targeted specifically for Millennials and Generation Z, expansion would likely increase total sales revenues.

Pioneering new menu items, specifically breakfast, could open the door to new sales revenues. Runza currently lacks a breakfast menu, but many other quick serve hamburger chains offer extensive breakfast menus. One downside of this strategy is that Runza is not a low-cost competitor. Therefore, Runza would need to differentiate their breakfast offerings for quality over cost. Additionally, expanding their menu offerings could help navigate the fickle tastes of consumers while sticking to their roots.

Increase in Targeted Millennial and Generation Z Marketing

Millennials have ever changing media tastes. Although Runza does have strong social media accounts, they advertise mainly through traditional routes such as TV and radio. As noted earlier, these traditional advertising efforts are less effective on younger generations. Instead, Runza would shift marketing strategies to those of the next generation of consumer. Specifically, Runza would create targeted social media advertisements for Facebook and Instagram, product placement advertisements in video content, leading YouTube ads, podcasts, and more.

Non-traditional media has several benefits over more traditional forms. First and foremost, advertisements can be targeted to specific age categories, geographical locations, and genders. Targeted advertisements help increase return on investments. It is also easy to measure

engagement, click through rates, number of impressions, and more. Therefore, Runza can get a strong understanding of the impacts of their marketing dollars. A robust marketing mix increases the exposure customers have to the brand and products and is an essential part to any strategic marketing plan.

Strategy Recommendation

The recommended strategy for Runza Restaurants is strategy option three. This strategy option closely aligns with the three evaluation criteria determined earlier. Boosting targeted social media efforts will be primarily a business unit level decision, since Runza Restaurant Corporation coordinates the major marketing efforts. However, the corporate and operational strategies must be aligned for the strategy to achieve long term success. A more detailed outline of the potential strategy is as follows.

Corporate

At the corporate level, top executives and board of directors must understand the importance of Millennial and Generation Z marketing. Furthermore, they must understand the influence this group will have on the company's long term success. At the corporate level, Runza must continue to examine the horizon for new product and service innovation. Currently, this could mean developing a mobile ordering system, or incorporating their franchise computer systems with a food delivery service such as Uber Eats, Postmates, or Door Dash. 93% of Gen Z and 87% of Millennials are very satisfied, or satisfied with meal delivery services. Furthermore, it is estimated that the market for online ordered delivery meals will grow by 20% this year (Dobriła, 2018). The meteoric rise of food delivery services should not be ignored. However, integrating these platforms will require a corporate level understanding and strategy decisions.

Business Unit

The main business unit focus will be on the corporate marketing side. The corporate marketing department oversees all main social media accounts, TV advertisements, and other promotional activities. As mentioned earlier, traditional advertising mediums are being trusted less and less by Gen Z and Millennials. Therefore, it is recommended that Runza focus on social media advertising to reach younger consumers. For Gen Z, Runza should focus on the following three social media platforms: YouTube, Instagram, and Snapchat. According to the Pew Research Center, the percentage of US teens using these platforms is 85%, 72%, and 69% respectively. The common denominator among these specific platforms? Visual. Each of these platforms has a primary focus on visual content. Facebook is slightly more popular among

Millennials and older Generation Z consumers, and therefore should be incorporated in to the marketing mix as well.

What are some good “visual” media content ideas? It’s simply not enough to take regular television ads and run them ahead of YouTube videos. Although a good start, it is important to produce original content for these platforms. For example, video on Snapchat is viewed in a vertical format. Creating content for vertical platforms requires different framing and planning than traditional horizontal media. Examples of potential content include: How to videos, Runza hacks, displays of Runza menu items outside of traditional restaurant settings, celebrity/influencer cameos, and co-branded content. Runza hacks would be showing how users can create their own “menu items” by combining several menu items on their own. For example, Runza’s new Twistwich ice cream sandwich could have been a menu hack prior to being added to the official menu. Menu hacks are a great way to boost engagement and get customers in the store to experience the menu hack that they saw online. Another popular trend in pop culture is celebrity endorsements and “influencer” promotions. This would require Runza to hire local influencers to promote their brand on their own personal social media platforms. These up and coming social media trends will allow Runza to leverage their already strong social media following to connect with a younger generation.

Operational

At the operational level, ongoing training for employees and managers will be essential to help them understand online food ordering and delivery systems and procedures. Local managers may also want to receive additional training and direction on social media marketing so that they can target their required 1% of gross sales designated for local marketing towards social

media. Local franchisees should also be aware of the social media campaign to help them understand the overall corporate strategy and objectives.

Implementation

Runza will need to work diligently to implement this new strategy quickly enough to be effective. First and foremost, Runza needs to seek bids and hire a company that can develop a mobile app for them, and integrate their system with that of Uber Eats, Door Dash, etc. The goal should be to have this system in place by the end of Summer of 2019. Getting this objective started is priority number one so that Runza can quickly tap in to that new revenue stream and bring themselves up to modern fast food practice.

After the corporate Runza team gets the mobile integration team rolling, an audit of current social media staff should be done. Primarily, the goal of this audit should be to determine current abilities of the staff and their capacity. If the staff are not currently capable in skill or capacity, Runza National will need to begin hiring new marketing staff specializing in Millennial and Generation Z efforts. Depending on available resources, it is recommended at least one full time employee is hired for this position. As soon as the correct candidate is found in the search process, content can begin to be created.

Finally, once the app and online order systems have been developed, corporate Runza will need to provide training materials and support to franchisees and their employees. It is imperative that training support is present for there to be seamless execution from the corporate to the functional level.

Contingency Plan

If this plan does not work, Runza will need to have a backup. Potential problems include delays in app development, technology integration problems, or unresponsiveness to the new marketing campaign. If this new plan does not work, Runza should work to invest in future restaurant technology upgrades such as digital ordering kiosks. Runza can also continue to fine tune their Millennial marketing efforts and try new things like contests, or customer generated marketing. These two alternatives still provide engagement, but may require more work to curate and execute. The key is that Runza does not give up on targeted marketing efforts for Millennials and Generation Z.

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