

Johnny Rockets Pakistan's Strategic Mistakes and Opportunity in a Growing Market

*Jawaid A. Qureshi**, *Saad Jamal Farooqui***, & *Muhammad Asif Qureshi****

It was an April afternoon of 2016, when Mr Abdul Wahab Bandhani, chairman Bandhani group of companies and master franchisee of Johnny Rockets Pakistan, finished reading the strategic report on two years' performance of Johnny Rockets Pakistan. The master franchise was acquired in March 2013, and after eight months of planning the first branch was opened in December 2013 at Dolmen Mall Clifton Karachi on the ground floor. During the initial years, it suffered heavy losses, stuck up and redundant investment in equipment and materials acquired for ten branches, whereas they had planned four but inaugurated five branches, high cost of imported materials like meat and white onions from USA, management turmoil cum change, resulting in employees' unrest, and dearth of consumers' endorsement because of exceptionally high prices of its products i.e. wrong segmentation cum pricing strategy. The strategic business report that the chairman has just finished reading was the result of last year performance. After losses since December 2013 to 2015, recently, the key indicators seemed in an upward trend which was a sign of progression; however there is still a long way to go. Key Words: Experiential Learning; Perception; Assessment.

Exhibit 1: QSC Factors

QSC (Quality-Service-Cleanliness)

Three ingredients for what customers demand from a food chain:

-Hot / Fresh

-Hygienic

-Consistent food

Source: Johnny Rockets (2016)

QSR INDUSTRY OF PAKISTAN

QSR or Quick Service Restaurants are usually fast food outlets that can prepare and serve food quickly. Certain factors are critical to observe in the QSR industry (as displayed in Exhibit 1). Franchise operations which are part of restaurant chains have standardized (pre-cooked / half cooked) food stuffs shipped to each restaurant from central locations for example like KFC, McDonald, Pizza Hut, Burger King, and so on for ready and quick serving. Fast food

Correspondence:

**Associate Professor SZABIST, Karachi. jawedkhanqureshi@gmail.com*

***MS Scholar SZABIST, Karachi.*

****PhD Scholar Universiti Utara Malaysia*

has become one of the fastest-growing segments of the restaurants and catering industry. This growth has not only been fulfilled by consumer demand, but also through the expansion of the supply base. Numbers of chains are able to offer a new experience to their existing customers and possibly appeal to a new customer base.

The fast food trend in Pakistan is growing since the past thirty years especially in the urban cities of Pakistan. Few factors influencing this trend were highlighted during a seminar at Marriot hotel in 2003 by MCR franchisee of Pizza Hut, Burger King and TGI Fridays for Pakistan and Afghanistan). People are travelling internationally and are more aware of the growing trends abroad and love to experience the international brand (food and non-food) in Pakistan. With the growth in the Middle East many Western brands are now introduced in the region and providing different flavors to the taste buds. Also with the growing population, the urban cities have little avenues for recreation and dining out at fast food giants are more of an entertainment than simply a need to satisfy the hunger. Furthermore, women (housewives) are routinely engaged in house activities and need a break from their daily routine and eating out becomes a family activity. Unique restaurant designs and menu variety become attraction for adults, while the kids play areas at some locations are attracting children. Big shopping malls like Dolmen Malls or Ocean Mall in Karachi and Centaurus Mall in Islamabad are attracting customers as a one-stop shopping solution. Food courts become attraction to the increasing number of foot fall visiting these locations; and avenue for fast food chains.

INVESTMENT COST FOR RESTAURANTS

The capital requirements involved in opening up a local fast food restaurant are relatively low. However running expenses like rentals, utilities, salaries etc. are key heads in the profit and loss statement. International fast food chains have a much higher investment cost, since the franchise fee are usually in US Dollars and have to be paid up front for 5-10 restaurants. Restaurants design and layout are executed by the designers employed by the principals and buildup or construction of the location has been done with specific building material; available at relatively high import cost in Pakistan. Furthermore, franchise fee as part of gross sales is a recurring expense every month. Also to the list are restrictions like purchase of equipment and raw materials from specified vendors increase the cost, henceforth reducing the return on investment (ROI) for the investor in Pakistan. In the mid of the year 2000, numerous investors raised this concern with their respective principals and some costs like construction material using alternate materials, local vendors for food suppliers meeting the international standards are inducted in the system.

CHANGES IN THE STRUCTURE OF FAST FOOD INDUSTRY

The restaurant industry in Pakistan is ever so evolving. It is the 2nd largest industry in the country with approximately 169 million consumers. It is the 16% of the total employment in manufacturing sector. The average food consumer in Karachi visits fast food chain almost once per week. The annual growth of the industry is nearly 20%. It is estimated that in Pakistan, average consumer spends 42% of one's income on food. This is mainly due to development of local brands that have made an impact and have competed with the international franchises by maintaining the same level of standard. As per Faraz Ali – key account manager foodpanda,

there are over 4500 food businesses in Karachi from which foodpanda has tapped only 1900. Pakistani franchises such as BBQ Tonight, One Potato Two Potato, Hot Spot, Student Biryani, etc. have now expanded themselves to such a level that they are now offering their franchises to potential investors internationally. Initially the industry was heavily dominated by the unbranded sector, Mr. Burger a local brand introduced the concept of gourmet burgers in Pakistan back in 1979. Burger in this sector is termed as 'bun kebab'. Few local brands like Burger Lab, Oh My Grill, Burger Mafia, Burger Inc., Burger O' Clock, and Hanifia were introduced. However in the mid-1990, international firms started coming to Pakistan and Pizza Hut opened its first branch in 1996 in Karachi and became an instant success. Currently world's renowned brands such as McDonald, KFC, Burger King, Hardees, Subway, Fat Burger, Pizza Hut, Dominos Pizza, Johnny Rockets, Burger King, etc. are already enjoying massive success and the consumers are ever so looking for new choices.

In the few recent years, launch of Fat Burger, Hardees, Johnny Rockets etc. in metro cities witnessed people waiting in line for as long as three hours to get a burger. There are other examples such as that of the launch of McDonald's in Pakistan. It had the most sales ever recorded in Asia from a single outlet on the first day of its launch, when it opened its first outlet in Karachi back in 1998. The history repeated itself when McDonald broke its own record sale by opening its first outlet in Peshawar in 2016. KFC has launched its 70th outlet for Pakistan in

EXHIBIT 2: PRINCIPLES OF ACCOUNTABILITY

1. 100% TOTAL CUSTOMER SATISFACTION

a. Achieved through QSC

2. SALES GROWTH

a. COM (Comparative Sales Targets - Monthly, Quarterly, and Annually)

b. COM GC's (Comparison of Monthly Guest Counts)

c. Profitability

3. OPTIMUM PROFIT

a. Controlling Cost Variances

b. Controlling Yield as per Targets

c. FCC (Food Cost Controllable)

i. Raw Waste

ii. Total Waste

iii. EMC (Employee Meals Consumption)

d. Targeted Costs

i. Supply Chain

ii. Marketing Cost

iii. Financial Cost

iv. Labor to be in control

v. Utilities

vi. Miscellaneous Expenses

4. PRODUCTIVE AND MOTIVATED STAFF

a. Regular Training

b. Target based Incentives

c. Clear Road Map for Growth

5. MARKET SHARE

a. Optimum Market Share

b. Increase in Number of Stores

6. FAIR AND APPROPRIATE BUSINESS PRACTICES

a. Customers

b. Vendors / Suppliers

Source: Johnny Rockets (2016)

2016. With increasing business of international fast food chains, there are some accountability codes being developed that are adhered by them (as displayed in Exhibit 2).

BURGER COMPETITORS

When it comes to competitors especially for burgers, there are a few renowned international brands' franchises like KFC, McDonald's, Subway, Fat Burger, Hardees, and Burger King operating in Pakistan. However, the other local players in the industry include Mr Burger, Burger O'Clock, Burger Lab, Burger Factory, Hunger Packs, Source: Johnny Rockets (2016)

Tipu, Burger Shake, etc. The number of branches of each of the intercontinental fast food restaurant portrayed in Pakistan is portrayed in Exhibit 3, in which KFC tops with seventy branches followed by Pizza Hut and McDonald.

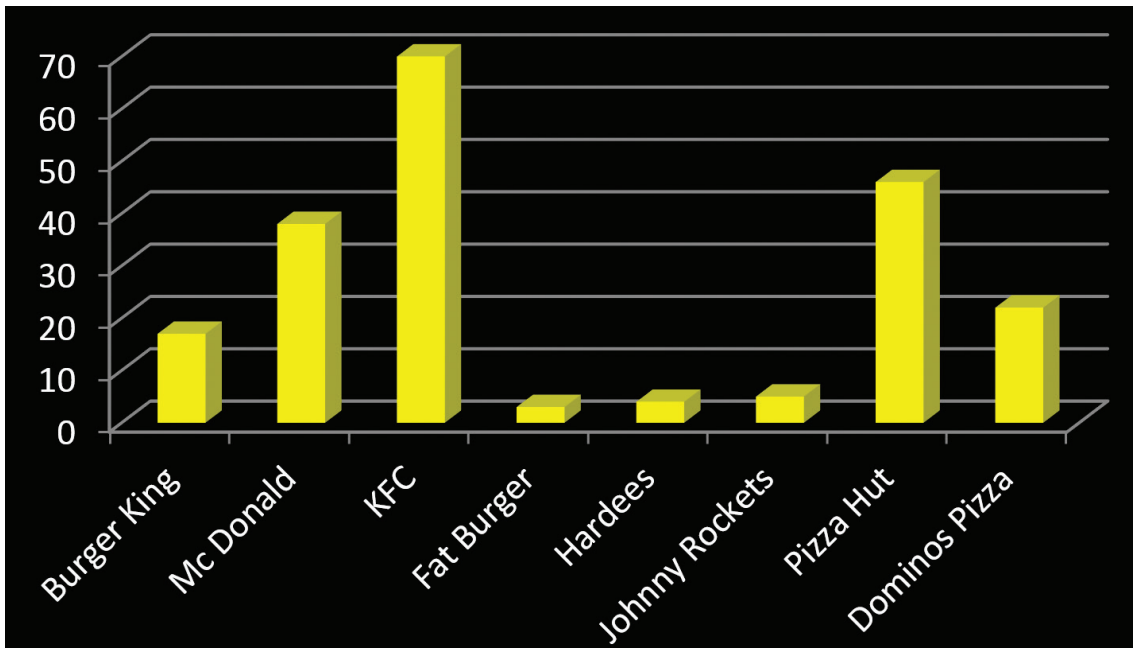


Exhibit 3: The Number of Branches of International Fast Food Restaurants



MCDONALD PAKISTAN

Lakson Group started operations in Pakistan in 1954 as a trading company. Lakson group today has a turnover of exceeding US\$ 440 million, and operates numerous companies with renowned brands like Express News, Express News Paper, Tribune, Century Paper and Board Mills, Cybernet, Sybrid, Colgagte Palmolive, Tetley Tea, Century insurance, Merit Packaging, Lakson Business Solutions, Princeton travels, Clover Foods, Accuray Surgicals, Merit Packaging, Titan Watches, Tritex Cotton, Ice Animations and many more. Lakson Group has many subsidiaries including SIZA Foods, which is named after the four directors of the Group (Sultan Lakhani, Iqbal

Lakhani, Zulfiqar Lakhani, and Amin Lakhani). Mc Donald is owned by SIZA Food.

In 1955, Ray Kroc founded the McDonald's Corporation in USA and opened the first restaurant in Des Plaines, Illinois. McDonald's grew as the largest restaurant organization in the world. Today, there are more than 34,000 McDonald's restaurants serving 69 million customers every day in over 119 countries. McDonald's first restaurant was opened in September 1998 in Lahore, Pakistan. An unprecedented enthusiasm and positive response was received from the citizens of Lahore, who are known for their liveliness, vigor, and penchant for quality food. Karachi opened its first restaurant a week after Lahore. Ever since the launch of the both restaurants, the company is proudly providing its customers the same great taste, outstanding value, and superior service that is synonymous with the Golden Arches all over the world. There are now 38 restaurants in major cities of Pakistan. Today millions of customers place their trust in McDonald's while providing them with food of a very high standard, quick service, and value for money. Being a responsible corporate citizen, McDonald's firmly believes in giving back to the community. It has a proactive approach to charities and sponsorships to inspire and support the people of Pakistan, especially the underprivileged ones. Johnny Rockets considers McDonald as its direct rival since the prices of its burgers and products range in the premium price segment.



KFC has come a long way, perfecting its herbs and spices. The franchise opened their first franchise in Lahore in 1997 in Gulshan-e-Iqbal and wore the market leader title in fast food industry. Delicious food in a relaxing environment had made KFC everyone's favorite. There has been numerous management turnover and business buyout over the years. Presently, KFC is branched out in eighteen major cities of Pakistan with approximately 70 outlets nation-wide. KFC has been providing entertainment to its customers in a friendly environment and contributing a lot in the economic development of Pakistan as well. At present, 6000 individuals are directly dependent or employed with KFC Pakistan. The Government of Pakistan receives over Rs.10 million per month from KFC Pakistan as direct taxes. 95% of food packing material used in KFC Pakistan is procured locally. Each of its outlet costs approximately Rs.4 million. KFC is involved in numerous above-the-line (ATL) and below-the-line (BTL) activities. It uses a variety of marketing tools like radio spots, newspapers, social, media, billboards, college activation, and many others. The company is also involved in corporate social responsibility (CSR) activities like dedicating one outlet in Karachi only to special employees.


Competitive Forces in the Industry

A model on competitive forces is developed by Dr Michael E. Porter to analyze the external environment of a business or industry. It is utilized here to analyze fast food industry in Pakistan.

Barriers to Entry: Moderate-level barriers to entry exist – lots of new fast food chains, local and international are being opened. The moderate capital cost of establishing a new restaurant makes it moderately easy for small or medium-sized firms to launch that business. However, it is expensive to build a strong brand that could match top brands. High fixed costs occur – burger shops incur significant costs such as, rent, ESS (Equipment, Seating, and Signage), and licenses (for international brands). Bargaining Power of Suppliers: Suppliers of

burgers and related ingredients are not much powerful as numerous suppliers are available and individual suppliers cannot charge high price. Availability of Substitutes: Customers have lots of substitute options in restaurant foods – e.g. sandwiches, pizzas, Chinese food, and local food items (Biryani, Karahai, Handi, Nihari, Haleem, etc.). Customer loyalty and switching costs is low. Bargaining Power of Customers: They have substantial power to either accept the product or to reject it which impact significantly on sales and brand image. Since they consume the entire output, they find it easy and inexpensive to switch to a suitable alternative. Competitive Rivalry: Competition is growing each month. Competitors (local and international brands) are initiating new campaigns to promote their products using all ATL and BTL tools to gain market share. This shows that competition is getting stiffer in the industry.

BANDHANI GROUP OF COMPANIES

BANDHANIGROUP  Bandhani group was founded by Haji Abdur Rahim Bandhani in 1978 as a family owned business. Initially the company was called Logistic Management International (LMI). The company became experienced in handling projects and with focus on crude oil and cross-country bulk cargo transportation. LMI has a dedicated team of professionals and its capabilities are second to none. They have the capabilities and capacities of getting the cargo to its destination on time and within the most competitive price. No matter how small or large a project is, LMI has the resources to ensure a quality transport solution every time. Mr Bandhani was joined by his two sons as directors in the company.



In 1994, Haji Adbur Rahim Bandhani expired due to heart attack and his youngest son, (Hafiz) Abdul Wahab Bandhani assumed the responsibility as its chairman. Abdul being young and dynamic took the company to new heights, by contracting with long terms agreements with oil refineries in Pakistan. Hence the company expanded the group from merely a family owned business to one of the largest oil carrier companies and was ranked amongst the top fifteen oil carriers in Pakistan, in 2009. LMI provides highly specialized and customized solutions in transportation of the various goods including (but not limited to): crude oil / condensate, high octane blending component (HOBC), high speed diesel (HSD), gasoline, furnace oil, jet A-1, light diesel oil (LDO), bitumen, containerized and loose cargo, commodities in bulk such as, wheat, sugar, edible oils, chemicals and fertilizers, water, minerals' ore, and many others. LMI has a long list of clientele inclusive of: Byco Refinery, Chevron Pak Limited (Caltex), Pakistan State Oil (PSO), Overseas Oil Trading Company (Private) Limited (OOTCL), Parco Inc, Bakri Trading Company Pakistan (Private) Limited, Hubco Inc, National Logistics Cell (NLC), National Fertilizers Marketing Limited (NFML), Engro Corporation, Trading Corporation of Pakistan (TCP), United Nations World Food Program (WFP), and many others.

To expand the business portfolio, in 2011, Hafiz—under the umbrella of Bandhani Group—established two other companies, they acquired two international brands i.e. one for each company. They consisted: Happy Beings (Private) Limited - Master Franchisee of Party Fiesta Spain and Hamdan International (Private) Limited - Master Franchisee of Johnny Rockets International, USA. Although Abdul Wahab Bandhani appeared very enterprising and problem-solving entrepreneur with business in his blood and genes, he planned to reduce the risk of un-tried ideas in business by working with renowned international brands for extended

learning, experience, and having higher returns for his stakeholders. The franchise model will allow this group to enjoy the trademarks, copyrights, and other intellectual property of well-established international brands. The franchisors will provide them proven and standardized business model, rigorous training, standard operating procedures (SOPs) to operational manual, and steer on their growth and expansion strategy. Moreover, by virtue of enjoying the master franchisee rights, they can provide franchise rights to other investors/entrepreneurs throughout Pakistan, and thrive exponentially with the resources, capabilities, and risk of others. It is like working with other peoples' money.



Party Fiesta is a fast growing European chain from Spain. It specializes in the retail of party items, costumes, and confectionery, with over 19 years of operations in the international market. Bandhani, the chairman of Bandhani Group, signed the franchise agreement between his company, Happy Beings (Private) Limited and Party Fiesta Spain in 2011. At present, Party Fiesta possesses stores located in eleven countries: Spain, Andorra, Portugal, France, England, Dominican Republic, Panama, Slovakia, Morocco, Saudi Arabia, and Pakistan. It became the first ever franchise of its kind in Pakistan with its first outlet at Dolmen City Mall, Sea View Clifton.



Party Fiesta carries a variety of products to make all celebrations a great success such as Halloween, Christmas, New Year's Eve, Carnival, Valentine's Day, Easter, Graduation parties, etc. to name a few. It is not just another party store, it is the one-stop solution to all party needs under one roof offering high quality accessories at the best price, and helping maximize fun at all kinds of celebrations. Party Fiesta features over 10,000 items. It aims to have a variety of products to make all sorts of celebrations a great success, bringing priceless joy to its customers. Its items are displayed in Exhibit 4.

Party Fiesta Products



Source: Party Fiesta (2016)



Hamdan International (Private) Limited was formed in 2011 under the umbrella of Bandhani Group, with primary purpose to acquire the different fast food franchises starting off from Johnny Rockets. It became the master franchisee of Johnny Rockets in Pakistan.

HISTORY OF JOHNNY ROCKETS (INTERNATIONAL)



Ronn Teitelbaum, an award-winning men's fashion retailer, launched the first Johnny Rockets on June 6, 1986, in California. The concept was based on the belief that everyone deserves a place where they can escape from today's complicated world and experience the uncomplicated goodness of classic cuisine. Johnny Rockets being an American restaurant franchise whose themed decor is based upon 1950s diner-style restaurants. The staff at some locations is known to sing and dance every half-hour. Each customer visiting, receives a smiley face with ketchup on the paper plate with French fries, it is a trade mark of Johnny Rockets.

Today there are over 400 Johnny Rockets locations in over 30 countries: United States, United Kingdom, Germany, Bahamas, Bahrain, Brazil, Canada, Chile, Costa Rica, Colombia, Panama, Philippines, Indonesia, Egypt, Qatar, Kuwait, Russia, Malaysia, Saudi Arabia, South Korea, Honduras, Bangladesh, India, Pakistan, Nigeria, Tunisia, United Arab Emirates, Dominican Republic, Mexico, North Cyprus, Ecuador, etc. The brand is also located in 17 (six flags') amusement park locations and 11 royal Caribbean cruise ships.

The theme is the one that has proven to be universal and that leaps across all geographic and cultural boundaries. Throughout the world, people recognize the value of the stereotypical home-cooked goodness of classic comfort foods, smiling, outgoing service, and a bright, clean, and jovial atmosphere. Each year, Johnny Rockets serves 17 million hamburgers, 11.3 million soda pops, 8.3 million shakes and malts, 8 million pounds of fries, 2.1 million orders of onion rings and 815,000 gallons of ice cream. The MISSION of Johnny Rockets has been "to establish Johnny Rockets as the leading global restaurant chain providing a classic all-American experience". While it's VISION is: "to become the world's best service provider restaurant". Being "BEST" actually means providing the: high quality food and on time service, friendly environment, and committed in heart and mind of customers. Johnny Rockets aims to create a value with the customers to make it as a top-five burger places. As part of induction of any new member in its family, it is ensured that each employee is aware of the Mission and Vision of the company. The implementation is only possible when each employee is aware of key parameters.

- *Passion and Fun – bring a sense of joy to everything we do.*
- *Diversity and Respect – embrace the unique qualities of others – respect ourselves, our team members, our guests and our community.*
- *Integrity and Honesty – do the right thing, all the time.*
- *Ownership – focus on accountability, responsibility, and profitability.*
- *Learning and Innovation – grow in knowledge and experience and always seek better ways to do things.*

HISTORY OF JOHNNY ROCKETS (PAKISTAN)

Exhibit 5: Locations of Johnny Rocket in Pakistan

In July 2011, Hamdan International (Private) Limited—a subsidiary of Bandhani Group—bided for the franchise of Johnny Rockets in Dubai and acquired it for Pakistan in December 2011. Four like-minded friends became investors and entrepreneurs with the aim to introduce another international fast food chain in the growing and potential market of Pakistan. Only two of them were active investors with 70% share in the company. However none of them had a fast food or retail management experience. In February 2012, a consultant firm was hired for conducting market



Source: *Johnny Rockets (2016)*

feasibility report. The report was submitted, in January 2013. Then management decided to wait for the general elections in May 2013 before any major investment decision could be undertaken. In the meanwhile, homework was completed for selecting locations in top-three big cities: Karachi, Lahore, and Islamabad, as it is portrayed in Exhibit 5.

As per Sharon Gredaline (head of corporate communications), “Johnny Rockets is not just a meal, it is an experience”, is the bottom line. Smiles are precisely as important as the product is. When it comes down to service, it is a one-on-one smile with every customer as opposed to ‘guest number 27’ and dropping the food off at the counter and turning around and walking away. It is a lean organization and the purpose is to restrict on unnecessary overheads. Organisation’s structure is illustrated in Exhibit 6 on the next page, where the chairman is on the top of leadership, followed by general managers/heads of marketing, operations (looking after branches’ network), and finance along with their sub-ordinates.

LAUNCH OF JOHNNY ROCKETS IN PAKISTAN (INITIAL MARKETING CAMPAIGNS AND SALES)

The first outlet of Johnny Rockets in Pakistan was opened at ground floor, Dolmen Mall Karachi in December 2013, where it received an overwhelming response. The second outlet was opened in Defense Housing Authority (DHA), Z-Block Lahore in January 2014, and consequently the third outlet was opened in Islamabad in March 2014. Heavy marketing budgets were invested for a four-month marketing campaign, which generated a lot of consumer traffic in each branch. A variety of high quality products were served to the customers, which were much appreciated. However the high prices were rejected by the customers and created a negative word-of-mouth among customers. Its sales data has witnessed many highs and lows over the period of time. The Exhibit 7 on the next page. standards of fast food chains of restaurants.

Exhibit 7: Organisation Structure of Johnny Rockets Pakistan

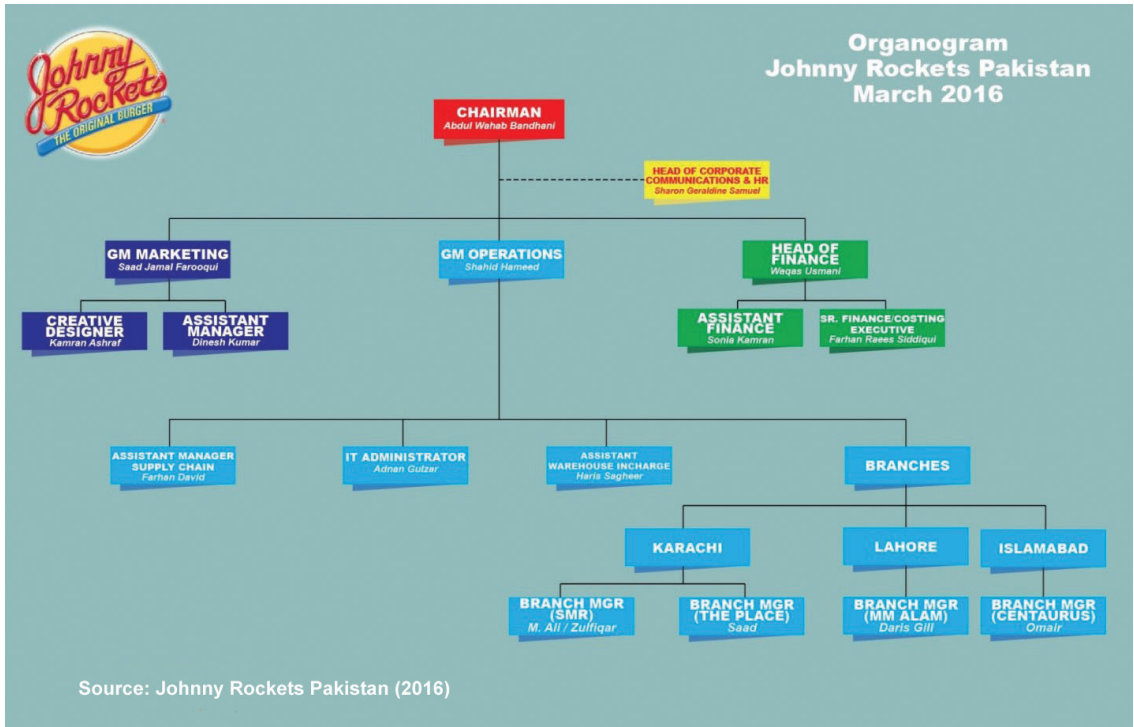
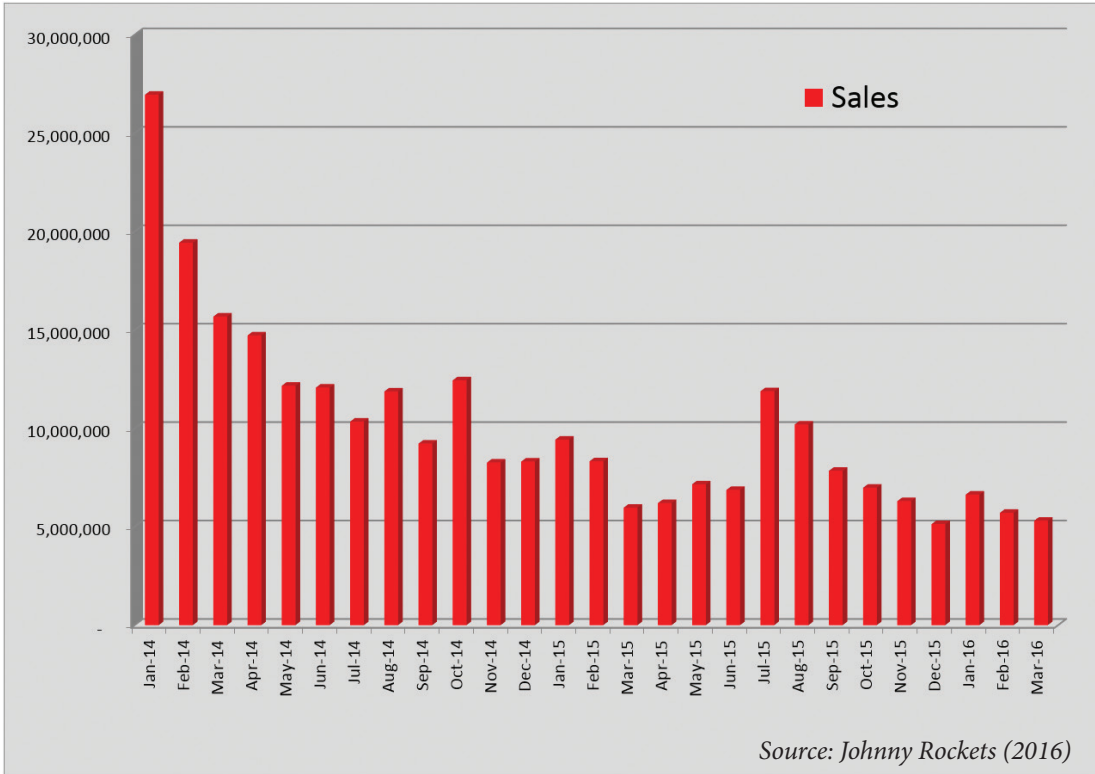


Exhibit 8: Internal Views inside Branches



Source: Johnny Rockets (2016)

Exhibit 9: Sales Graph of Johnny Rockets Pakistan (in Pak Rupees)



SALES OF JOHNNY ROCKETS

As portrayed in Exhibit 9, the sales trend of Johnny Rockets Pakistan (from January 2014 to March 2016) had declined ever since launch, primarily due to high prices. Huge marketing investment was done during launching stage, which pulled in guest counts but customers did not return due to high prices, which evidenced lack of repeat sales from customers. In August 2014, Eid campaign was launched which received good feedback from customers and declined in September 2014. The Eid campaign was repeated on the next Eid again and sales jumped, before declining. In January 2015, a deal Winter Sizzler was launched at a very high food cost, which attracted customers. There were numerous changes at branches as business realignment was being implemented, there occurred frequent changes in top management, and staff was laid off. The situation created unrest amongst the customers and company. Since September 2015, sales have been quite steady; the decline in December 2015 was due to closure of Dolmen Mall branch Karachi for relocation to Saba Avenue Karachi.

MANAGEMENT AT JOHNNY ROCKETS

Since the acquisition of Johnny Rockets in December 2011, there have been a lot of changes in the management at Hamdan International. Before the launch, a consultancy company (a group of 5 people) was hired to develop and execute the business plan; however the contract was not renewed and the chairman, Mr Bandhani thanked it and hired a team primarily from

the competitors. The team followed the business plan to set very high prices for the products and incurred high cost like high rentals of outlets, procuring Microsoft license for ten outlets (although only four were planned), paying their upfront fee rather amortizing it over the years, and high human resource cost, etc. The team was to be headed by the chairman, Mr Bandhani himself. With enthusiasm to launch Johnny Rockets Pakistan, a lot of equipment and construction material was imported that was good enough for ten branches. However with the launch of the business, soon it become evident that there were serious faults in business plan as created by consultants and followed by new team. The new team (i.e. the second one after consultants) did not change the strategy. It continued importing meat and white onions from USA, thus bearing the high cost of shipping, taxes, refrigeration, and storage, and also tolerating the high cost of rentals. Although the new team included heavy guns picked from the industry, but the lethargy factors and 'I have done that' attitude, impacted negatively on the bottom line i.e. on profit and loss statement (as displayed in Exhibit 10) and could not attain the desired targeted results.

The management realized the situation and rectified the situation by changing some critical team members and hired a third team of professionals in mid-2014; from diversified industries with little background of fast food or retail management industry. The third management tried its level best to meet the high losses of the company, but faced a lot of challenges to arrive at a profitable position with a declining customer base. Dissatisfied with the performance, the chairman Bandhani decided to hire the 4th management team in early-2015, with fast food and retail experience. Hence, the fourth team was inducted in a span of four years during 2012-2015. With yearly change in the top management, a non-consistent business strategy existed to follow; the fourth and current team adopted a new approach cum strategy and revisited the business basics. In order to improve the profitability and reversing losses, the management laid down a simple plan focusing on increasing the brand recognition, improving the guest counts, and enhancing the average pay checks. At the same time, the objective was to: reduce the perception of high prices of products, streamline menu offering and decrease the food cost for better margins. This was possible via capitalizing on products to offer good value for money, highlighting the shakes which had positive consumer feedback and reach out to business partners like banks, educational institutions, and corporate clients. As illustrated in Exhibit 10 on the next page, the results of cost cutting resulted in lesser loss in 2015 as compared to 2014.

The management focused on numerous variables for improvement and cost-cutting like:

- Vendor management

- *Cash purchase from wholesale and middleman was eliminated and contracts were streamlined with numerous with distributors and importers with 30-45 day credit.*

- Raw materials

- *Meat standards were acquired from USA but local vendor was developed for meat sourcing. Price of meat reduced from Rs.1120/kg to Rs.390/kg.*
- *Reworking on buns was done to make them more unique and appealing.*
- *Imports of ice cream were streamlined with better inventory management.*

- Rentals and Utilities

- *High priced (rent) locations were relocated to more economical location. For instance, Dolmen Mall branch's monthly rent and utilities would amount for Rs1.3 million, whereas new*

location cost Rs.250,000.

- Smaller location translated in lower overheads like utilities (electricity and gas).

- Human Resources

- Departments were consolidated and many roles were eliminated.
- Area managers' roles for Karachi and North region were eliminated.
- Supply chain was merged in finance.
- Administration and HR were merged with corporate communication.
- Staff at branches was reduced.
- Three shift managers at branches were brought down to one.

- Information Technology

- The vendor for call center services was changed.
- Microsoft machines were resold to bring back frozen cash flows.
- Centralized system for attendance and salary was introduced.

Exhibit 10: Profit and Loss Statement (for the Year 2014-15 and 1st Quarter of 2016)

P&L - Johnny Rockets						
		Total - 2014		Total - 2015		Q1- 2016
NSV		165,000,000		95,000,000		19,500,000
COGS	60%	99,000,000	40%	38,000,000.00	55%	10,725,000
GS		66,000,000		57,000,000		8,775,000
Expenses						
Royalty	5%	8,250,000	5%	4,750,000	5%	975,000
Rent		32,400,000		27,850,000		3,075,000
Utilities		1,620,000		1,392,500		461,250
Salaries		22,800,000		15,600,000		3,750,000
HOH		9,600,000		6,600,000		1,650,000
Marketing	3%	4,950,000	3%	2,850,000	3%	585,000
Warehouse		1,800,000		1,560,000		210,000
Misc		2,400,000		1,800,000		405,000
GP		(17,820,000)		(5,402,500)		(2,336,250)
Taxes	25%	(4,455,000)	25%	(1,350,625)	25%	(584,063)
NP		(13,365,000)		(4,051,875)		(6,240,938)

Source: Johnny Rockets Annual Reports (2014-15; 2016)

Values in Pak Rupees

Abbreviations: P&L for profit and loss; NSV for net sales value; COGS for cost of goods sold; GS for gross sales; HOH for head-office overheads; Misc for miscellaneous; GP for gross profit; and NP for net profit

SWOT ANALYSIS FOR JOHNNY ROCKETS PAKISTAN

The strengths, weaknesses, opportunities, and threats (SWOT) analysis of Johnny Rockets is undertaken beneath in Exhibit 11 to identify various strategic factors that play a crucial role in its performance and the areas of improvements. It enjoys the reputation of being an international brand name with quality and a good variety, but faces losses, cash flow shortages, heavy outgoings, etc., it can opt to grow and expand branches via its own investment or through offering franchise rights to others, and it faces stiff competition, low entry barriers for new comers, uncertain and unpredictable legal-political situation in the country. Due to losses, the bank financing option for expanding its network domestically seems to be very challenging.

Exhibit 11: SWOT Analysis of Johnny Rockets Pakistan

Strengths

- *international brand name*
- *high quality of products and variety*
- *low customer complaints*
- *classic ambiance*
- *state-of-the-art technology*
- *well-groomed human resources*
- *standardized work procedures*
- *sound corporate backing by the parent company in Pakistan and international franchisor*

Weaknesses

- *less number of branches in key markets (three in Karachi and one each in Lahore and Islamabad)*
- *high operating expenses like rentals and utilities*
- *less cash flows*
- *less advertising as compared to competitors*
- *low budgets for marketing*
- *less awareness of brands amongst consumers*

Opportunities

- *local sourcing to reduce cost*
- *employees' advance training and development*
- *expanding home deliveries*
- *extending delivery segments*
- *tier pricing (menu) and tier segments*
- *opening more outlets*
- *entry in new markets for market development*

Threats

- *high number of foreign and local chains, with more entering the market*
- *local chains offer low priced and value added offers to consumers*
- *uncertain political situation*

MARKETING MIX STRATEGIES

Segmenting, Differentiating, Targeting, and Positioning (SDTP)

The segments that Johnny Rocket Pakistan focused comprise of upper class of the society, whereas sometimes the middle class can also occasionally enjoy its products. The age groups of consumers vary from few-year old children to teen agers, youngsters and adults, males and females, especially the urban population, educated and doing executive jobs, well-aware of the exotic fast food brands, and families fond of family dining and outing. With the growing concerns of health and precaution about junk food (especially in above 40 years' consumers), it introduced wholesome meals with salads and shakes. Children-specific meals were also available. It applied narrow differentiation strategy for a niche market looking for superior fast food, which targeted mainly the upper class and to some extent the middle class too. It positioned itself as a premium exotic brand with premium quality, variety, ambiance, and pricing.

Products: Products of Johnny Rockets

In Pakistan, Johnny Rockets has limited menu of innovative products with well-tested recipes, especially suitable for keeping in view the select market segments and targets. The menu consists of eight different types of burgers, six types of sandwiches, two types of shakes (three original flavors and fifteen deluxe flavors), flavor shots, and specific kids menu. The sole purpose of the strategy is to narrow the product line and maintain consistency and freshness before launching new options in line with international standards. Its products contain 100% Halal meat (from beef and chicken). Meat was procured from predefined aged animal, which fed from organic feed, and free from energy boosters injections. The efforts are to ensure that dishes are made to order as per Johnny Rockets' international standards. Neither any preservatives nor additives like soybean are added. The frozen meat is not used but procured daily in fresh form. The meat is grilled and not fried (a usual industry standard), hence it makes the burgers more healthy. Special seasoning imported from USA is used to add a special flavor in burgers. A specifically designed recipe is followed while procuring buns for burgers. These buns are made from a well-researched recipe crafted by experts in USA. Initially, the stuff of fries was imported from McCane and cooked using specific grade imported Malaysian oil only; and the ice cream used in shakes was imported from USA, which are the key to Johnny Rockets classic shakes. World's renowned brand Blue Bunny was assigned the task to develop and provide ice cream with specifically designed recipe. Johnny Rockets ensures that to maintain consistency, world's renowned brands like Pepsi, Heinz, American Garden, President Cheese, and Kraft products including Oreos are used in their product offering. It avails locally made products of Olpers in its products, whenever required.

Price: Pricing at Johnny Rockets

At the time of launch, prices at Johnny Rockets were quite high. This was basically due to the fact that the products were imported and not locally procured. The high import cost limited the company to have lower prices. Further, the high investment cost in location development, imported equipment, high staff salaries etc. forced the company to charge high prices. The company was justified in its pricing, but the customers rejected the pricing. Customers were highly satisfied with the product quality, but as compared to competitors the prices were high.

Company reacted to customers' feedback and reduced the prices by offering various seasonal deals. However the strategy resulted in high food cost and net loss to the company. Also the prices quoted in the menu were without gross sales tax (GST). Hence, when customers ordered (an already high price product) and received the bill, while 16% GST was added to the bill, which aggravated the customers. The negative word-of-mouth especially through social media spread like wild fire and growing customer base shrank drastically.

In 2016, the GST amount varied for each city and province: Karachi (Sindh), Lahore (Punjab) and Islamabad (federal capital) where the applicable GST on food items stands 14%, 16% and 17% respectively. The new pricing strategy by the current management not only reduced the menu prices, but also included GST in the listed prices. Hence, fast food consumers engaged in web browsing for prices cum deals and online sites specializing in comparative food products' prices and delivery like Foodpanda, would be confused on the actual billed amount they would receive. The layout of the menu has been adopted as per the international research, and each item with respect to its price is strategically placed in the menu based on eyeball movement of a customer (as portrayed on next page in Exhibit 12 on Customers' Eye Tracking and Exhibit 13 on Menu Layout). Initially when the brand was launched in 2014, the average price (per meal, per consumer) with taxes per customers appeared approximately PKR 1350, whereas the similar prevailing price by McDonald at the time stood PKR 650 (per consumer). The quality offered by Johnny Rockets was far better but due to prices customers did not return. With numerous campaigns focused on reduced prices and maintaining the product quality, the average price per customer at Johnny Rockets in early 2106 was reduced to PKR 425 per customer. Its key rival (in burger category), McDonald started charging PKR 460 per customer. Food cost for Johnny Rockets was quite high but the pricing strategy resulted in high turnover of customers as it became more acceptable and company recorded an increasing number of customers visiting their stores.

Place: Locations of Johnny Rockets

Currently (till March 2016), Johnny Rockets has only five branches in three metro cities of Pakistan, whereas it plans to open five more branches by the end of 2016. In Karachi, it is located at: Saba Avenue, which was relocated from Dolmen Mall Clifton Branch in January 2016; The Place (Food Court) outlet was opened in June 2014; and Shaheed-e-Millat Branch was opened in June 2015. In Lahore, Z-Block DHA branch was relocated to MM Alam Road. In Islamabad, a branch was inaugurated in Centaurus Mall (food court). At the outset of its operations, it launched its outlets from Dolmen Mall Karachi and Z-Block Lahore, where it got tremendous response. However, the high prices could not sustain the business for long time, because various rivals charged relatively low prices. The branches were relocated to save on rental and operating cost like salaries and wages. New branches were opened to increase the length and breadth of the business.

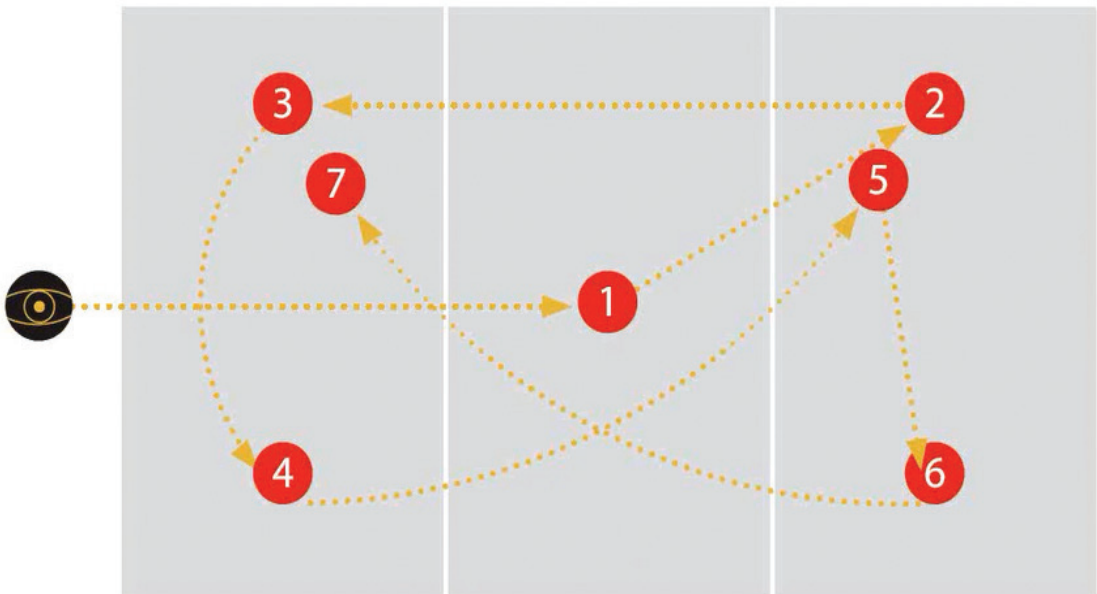
Promotions/Integrated Marketing Communication: Turnaround Strategies

The most urgent need for a redefinition of the business occurs when the underperformance in the organization is so acute that its survival is at risk. The management of Johnny Rockets Pakistan had to implement a turnaround strategy to reverse the underperformance and put the firm back on a more secure path. With the aim to have numerous promotions to launch under limited budgets, management firstly worked on reducing food cost and prices. This meant

reduced topline of the company. In effect, the second variable—marketing cost brought down at three percent of topline—would also reduce in absolute (value) terms. Hence, due to limited marketing budgets, it frequently engages in guerilla marketing activities (such as, below-the-line activities). Therefore, strategic alliances had to be made with key business partners. Breakthrough in revenues was a result of alliances with renowned banks, which proved a key success. Most of the top banks have a marketing plan for credit cards and debit cards. Credit or debit card business managers continuously allocate budgets toward cards' spending. The key focus for these managers is that the customers carry multiple cards and they want to excite their customers to spend more on their banks' products. In fact, over spending would lead of minimum payment or short payment by customers every month and customers keep carrying forward their payments and installments. Banks earn revenue streams from such revolving transactions and earn (interest) payment in terms of service fee and financial charges. Value addition was created to the card holders. Usually it was a flat (variable) discount on menu items. Negotiations were made with some banks to reimburse part of the flat discount.

Exhibit 12: Customers' Eye Tracking

THREE PAGE EYE-TRACKING



Source: Johnny Rockets (2016)

Exhibit 13: Menu Layout of Johnny Rockets

TOP QUALITY MADE-TO-ORDER ORIGINAL BURGERS

Meats & veggies from farms. Breads & rolls from bakeries. Shakes & Soda Pop. AT Johnny Rockets, we use fresh, quality ingredients to make our classic meals.

Shakes

Dessert Favorites

SHAREABLE STARTERS & SIDES

FAN FAVORITES

Kids MEAL DEALS & SHAKES

CREATE YOUR OWN BURGER

Source: Menus of Johnny Rockets (2016)

CO-BRANDING DEALS AND ALLIANCES WITH BANKS



Habib Bank Limited (HBL) has the largest number of cardholders especially after the acquisition of Citi Bank cardholders merging with HBL cardholders. Today, it has 1.9 million card consumers, with 0.5 million cardholders based in top-three metros (Karachi, Lahore, and Islamabad). The promotional offer is 25% discount on menu items to card holders, with 15% redemption back to Johnny Rockets: exclusive deals, branded SMS to users, email marketing, and auto teller machine (ATM) branding are used.



United Bank Limited (UBL) has 1.6 million cardholders with 0.35 million based in top three metros. The bank has a very experienced credit card promotion and loyalty program in place. The promotion offer is 20% discount on menu items to cardholders with 10% redemption back to Johnny Rockets. The promotion also includes special occasions (like Valentine's Day and Independence Day) discount of 50% with 25% reimbursement to Johnny Rockets, branded SMS to users, email marketing, social media presence, and credit card envelop

branding, etc.



MCB has 2.5 million cardholders with 0.8 million based in top three metros. The bank has the most number of debit cardholders, as a debit card has been provided to each account holders. The promotional offer is 50% discount on menu items to cardholders with no redemption back to Johnny Rockets. Rather than redemption, instore merchandising would be provided along with branded SMS, and internal mail to all staff and corporate email to all cardholders.



Silk Bank has only 1.1 million cardholders with 0.50 million based in top three metros. The promotions include special occasion discount on mothers' day, Ramadan campaign, Eid campaign, etc. It promotes Johnny Rockets on its website, credit card envelopes, and social media.



Faysal Bank has approximately 0.135 million credit cardholders only, but most of them appear active users. For their platinum card, a 25% discount on menu items is offered. In addition, on purchase of burger meal (at menu price) and payment via Faysal Bank credit card, a large free shake is free for customers, while only GST is to be paid by customer.



Standard Chartered Bank (SCB) and NIB, both have low customer base and a 15–20% discount on menu items are provided to their cardholders. The banks promote the brand on social media and through occasional SMS or text messages.

Privilege Cards

A discount card was launched in November 2015 for Johnny Rockets key customers. With seventeen coupons, customers could avail over PKR 8,100 discount, including one free meal. The sales of the card was primarily through own staff who were given incentives to sell card. Also call center, five online food portals and two below-the-line (BTL) companies were engaged in selling the card. The price of the card was PKR 699 and generated over PKR 3 million in four months from card sales alone and over PKR 5 million in revenue from the use of coupon. The exercise provided the company much needed cash flows to cover the running outlays.

Corporate Booklet (Auspak / Ufone)

Adapting the Privilege Card, corporate booklet with branding was launched with two companies in January 2016. The booklets had limited coupons and were distributed free of cost to the employees of Auspak and Ufone companies.

Discount Booklets

Two discount booklets 'Vouch 365' and 'BOGO' were launched for corporate clients at Rs5000 and Rs2000 respectively. They contained discounted offers of 'buy one and get one free' offer. The activity generated good results and revenues for Johnny Rockets.

TV and Radio Shows

The TV shows of Sahir Lodhi (on Samaa TV), Shahista Wahidi (on Geo TV), and Jeeto Pakistan hosted by Fahad Mustafa (on ARY TV) were used for brand endorsement of the brand. Audiences were served fresh and hot meals. Also callers and game participants would receive free meal vouchers to visit Johnny Rocket branches and enjoy with their friends and family. Also barter arrangements with FM Radio (FM 89, FM 91, FM 107.4, and FM 107), i.e. food deals for radio promotion are done once a quarter to keep the brand alive with the radio listeners.

Online Media Campaigns for Brand-building

Various campaigns were launched on online media as described underneath.

- Ufone

- Services of Ufone were acquired with whom focused SMS were broadcasted with exclusive offers available from specific branches. The exercise resulted in MSM (My Store Marketing) and generated good customer footfall and revenues increased by 4.5 times in the campaign days.

- Own SMS

- Also data generated from customer comment cards, online activity on Facebook and sales through online food portals (foodpanda, EatOye, Food Genie) generated customer mobile numbers to whom periodic messages for current promotions were broadcasted.

- Social Media

- Facebook, Twitter, and Instagram are commonly used for engagement with customers. Daily posts are uploaded for running promotions, competition, engagement with customers, and general information about the company.
- Social engagement is also done through online food portals to improve Search Engine Optimization (SEO) for the brand.

- Online Food Portals

- Numerous food portals were selected for online ordering. These included Lootlo.pk, 24hours.pk, Dealtoday.pk, Karachideals.com, foodpanda, EatOye, and Food Genie. Hefty discounts were offered to customers searching online discount deals. This strategy resulted in increased sales from this portion as approximately 8% annual volume was derived from online sales.

SHORT TERM MARKETING CAMPAIGNS

There are many options to eat out and customers are sometime doubtful of the product quality and price. To opinion leaders, 'Free meals activity' is a continuous activity employed at Johnny Rockets. The purpose is to invite people from diverse fields to try Johnny Rockets' fresh and hot burgers. Barter deals are frequently carried out as cash flows are limited in the company, and free meal vouchers are provided to business partners for promoting campaigns. Furthermore, sporadic campaigns with Jubilee Insurance, Online food portals (Lootlo, Deal

Today, 24hours, and Zambil) and ‘buy one and get one free’ vouchers for (students, corporates, and Asian Student Forum), discounts to corporates and student bodies like (Institute of Business Administration [IBA], Lahore University of Management Sciences [LUMS], Happy Selling Card, Khas Store (Punjab), Naheed Store, Teemart, IBEX global, Telemart, and D-cards) are regularly executed to bring footfall to the company.

JOHNNY ROCKETS PAKISTAN’S WAY FORWARD

The chairman Abdul Wahab Bandhani finished reading the report and the activities of Johnny Rockets for the year 2015. He looked at the painting on the wall and leaned back on his chair. He was quite satisfied on the increasing number of guest counts and the customer footfall being generated due to reduced prices which minimised losses. He thought – what should the strategy ahead be? Should Johnny Rockets invest in more branches and expand the coverage in the market (with three major cities or even beyond), or consolidate on the current branches? Could he ever give the franchise to other investors as well? Should the prices of Johnny Rockets remain low and concentrate on more guest count or earn more revenue per customers by escalating prices? Should they introduce more innovated product offers and lines? What could be done for brand building and enhancing customer loyalty? He thought what was the right way ahead for Johnny Rockets?

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