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Howard Johnson's: Rise and Fall of an American Icon

Abstract

The Howard Johnson's restaurant chain was one of the first franchise success stories in the United States. Climbing in size to be over 1,000 restaurants, the chain today boasts fewer than 30 units. How could such a successful company spiral downward to virtually nothing? This article examines the history of the chain and offers reasons for its success and demise.

Howard Johnson's: Rise and fall of an American icon

by William Crandall and
John A. Parnell

The Howard Johnson's restaurant chain was one of the first franchise success stories in the United States. Climbing in size to over 1,000 restaurants, the chain today boasts fewer than 30 units. How could such a successful company spiral downward to virtually nothing? This article examines the history of the chain and offers reasons for its success and demise.

The Howard Johnson's restaurant chain was once an American icon. Rising to over a thousand units, the familiar orange roofs, 28 flavors of ice cream, fried clams, unique frankfurters, and decent, yet generic food, has satisfied weary travelers since 1925. And yet today fewer than 30 restaurants remain.¹

How could such a large empire crumble to virtually nothing? What lessons can be learned from the rise and decline? Could any of today's large, stable chains be the next to fall? Such questions are not just for the nostalgic road traveler. Management scholars, business

practitioners, and students can also benefit by studying the Howard Johnson's restaurant chain. Fortunately, there are some good lessons that can be gleaned as well. After all, a chain that can withstand a depression, a World War, and gasoline shortages in the '70s, must have been doing some things right.

American icon debuts

Ironically, Howard Johnson entered the restaurant industry in order to pay off debts from a failed cigar-selling venture.² In 1925, he bought a small soda shop in Quincy, Massachusetts. The store, left to him by his father, sold three flavors of ice cream: chocolate, strawberry, and vanilla. He decided to experiment with the quality of the ice cream by using hand-cranked makers and doubling the butterfat of the product.³ The resulting ice cream—with 16 percent butterfat and 28 flavors—was popular with his customers, and sales at the store increased dramatically. Johnson

expanded operations by opening a second store in Wollaston, Massachusetts, in 1927 and a third in Natasket Beach, Massachusetts, the following year. He also started selling food items such as hamburgers and frankfurters at his original store. All three stores did well, but Johnson was still in debt and was not ready for expansion.⁴

In 1929, Johnson opened a second restaurant in Quincy. This store had a broader menu and laid the groundwork for future expansion. However, with the oncoming depression, growth plans were put on hold while Johnson re-thought his vision. In his mind, the future of American eateries centered around the popularity of automobiles and improved roadways.⁵ His thinking was that Americans would take to the roads more and want good food along the way.

Franchising is born

In 1935, Howard Johnson teamed up with local businessman Reginald Sprague and created the first modern-day restaurant franchise.⁶ The idea was new in that day—let an operator use the name, food, supplies, and logo, in exchange for a fee. By 1941, the chain had grown to 150 units and was poised for growth, most of which occurred along the Atlantic Coast, and into Florida.⁷ The placing of restaurants on the route to Florida was especially strategic because travelers wanted a predictable meal at a predictable price.⁸

Howard Johnson faced a second

crisis following the depression: World War II. The impact on the chain was tremendous. Food rationing, gasoline restrictions, and less travel by Americans nearly forced the chain into bankruptcy.⁹ All but 10 of the 90 existing restaurants were closed,¹⁰ but the company itself survived by catering to the military and schools. After the war, closed restaurants were reopened and new ones were built.

Growth is in the East

One of the first areas of growth was along the Pennsylvania Turnpike, where restaurants were placed at approximately 50-mile intervals. Growth also continued with the franchising of stores in other areas, mostly in the eastern United States. The main concentration of restaurants was in the greater Boston, New York City, and Philadelphia areas.¹¹

By 1954, the chain boasted 400 restaurants and was ready to enter the lodging industry. During this same year, Howard Johnson opened his first motel in Savannah, Georgia. The combination of a motel and restaurant on the same property proved popular as growth continued throughout the entire country, and on into Canada and Puerto Rico.¹²

Johnson's son, Howard B. Johnson, took over the company in 1959 and was given the charge by his father to "make it grow."¹³ The restaurant chain topped the 1,000 mark by the late 1970s, with about 500 motor lodges as well.

The 1980s proved to be critical

years to the chain.¹⁴ Competition from fast food restaurants ate away at market share and Howard Johnson's began to show a need for re-inventing itself. The company was sold in 1980 to a British firm, The Imperial Group, for \$630 million. The sale included 1,040 restaurants and 520 motor lodges.¹⁵ The Imperial Group struggled to position the chain successfully in the competitive market of the 1980s. Sales remained flat and operating income was dropping.¹⁶

In 1985, the company was sold again, this time to the Marriott Corporation.¹⁷ Marriott sold 199 franchised restaurants and retained the 418 company stores, later converting them to its own "Bob's Big Boy" concept.¹⁸ Marriott also sold all of the Howard Johnson's lodging units to Prime Motor Inns. In 1990, the lodging chain was sold to Blackstone Hospitality Franchise System.¹⁹

In 1986, a group of franchisees, concerned about the Marriott strategy of selling off or converting restaurants to other concepts, formed their own company called Franchise Associates, Inc. (FAI). Located in South Weymouth, Massachusetts, FAI currently owns the right to operate the Howard Johnson name and product in relationship to the original restaurant concept.

Howard Johnson's can be viewed in terms of two separate, yet related industries, restaurants and lodging. Today, the lodging side of the business, under the management of Cendant Corporation, is

doing well.²⁰ However, the restaurant side struggles for survival.

Marketing is success

Howard Johnson's restaurants were placed in high traffic areas for greater visibility. The orange roof was meant to be an advertising logo in itself, one that could be seen from a distance.²¹ The Simple Simon and the Pieman logo located on the large highway signs was a distinctive marketing success.²²

The placing of restaurants on the Pennsylvania Turnpike was another marketing success.²³ The turnpike was the first modern superhighway and Howard Johnson's was the first major restaurant chain. This marriage helped identify Johnson with "progressive engineering."²⁴ Eventually, the turnpike expansion included roadways in Connecticut, Illinois, Kansas, New Jersey, New York, Ohio, and Oklahoma.²⁵

Management mix varies

The restaurant industry can be segmented in several ways for planning and market research purposes.²⁶ One such depiction is illustrated in Table 1. The matrix segments service into three levels: low, medium, and high. Menu variety is also segmented into three levels of low, medium, and high. The type of eating establishment is placed in its corresponding box according to service level and menu variety. Howard Johnson's is represented in the medium service, medium menu variety segment. During the 1970s, the majority of

Table 1
Segmentation of restaurant industry
by service level and menu variety.

Service level/ menu variety	Low variety	Medium variety	High variety
Low Service	Fast food restaurants Drive-ins	Diners	Cafeterias
Medium Service	Specialty restaurants	Coffee shop & family restaurants (Howard Johnson's)	Casual-dining restaurants
High Service	Concept restaurants	Upscale dinner houses	Fine-dining restaurants (gourmet)

Source: Adapted from J. Jakle & K. Sculle, *Fast food: Roadside restaurants of the automobile age* (Baltimore and London: The Johns Hopkins University Press, 1999), 85.

restaurants built were represented in the top two rows of the matrix. However, the 1980s and 1990s saw more chains expanding into the segments represented by the lower row of the matrix.²⁷

The 1970s saw Howard Johnson's hit with competition from many fronts. Competition was especially strong from chains that focused on a particular niche such as Wendy's (hamburgers), Long John Silver's (seafood), or KFC (fried chicken). These firms are represented in the low service, low menu variety segment of Table 1. Service from these chains was faster and prices were often lower than what Howard Johnson's could offer.²⁸

In order to meet the competitive

challenge, Howard Johnson's diversified its appeal. In the 1970s, the chain opened the Ground Round, a more upscale concept, aimed at the family market. By 1984, there were 225 Ground Rounds operating, and most of them were profitable.²⁹ In the 1980s, four other concepts were experimented with: Paddywacks, Bumbershoots, Pickle Lilys, and Deli Baker-Ice Cream Maker. Paddywacks was a coffee shop, while Bumbershoots and Pickle Lilys were designed to compete in the theme restaurant segment. Deli-Baker-Ice Cream Maker was an upscale deli with emphasis on take-out and premium beers.³⁰ These outlets were not widely successful, and enthusiasm for the restaurants eventually waned

when the Imperial Group revealed its plans in 1984 to dispose of the Howard Johnson's company.³¹

Various menu upgrades, long overdue, were undertaken at the original Howard Johnson's restaurants during the 1980s. One of the key changes was to allow individual units to serve regional favorites. For example, pot roast was featured in the Northeast, while chicken and dumplings were sold in the South.³² As the 1990s approached, menus were also altered to include more healthy fare such as oat bran muffins, fresh fruit and yogurt platters, and low cholesterol items. New items were added, including upscale salads and innovative ice cream flavors.³³

Finance leads to growth

Ironically, Howard Johnson started in business because he was in debt from a previous business venture. He started his first restaurant in 1925 with \$2,500 in working capital to pay off a \$42,000 debt.³⁴ Even as his chain was growing, he took his time paying back his creditors. He once commented that his "suppliers were his creditors" and that "debts aren't anything to worry about if you can show the people you owe that you have a definite plan to pay them off, and if you look like a man with gumption enough to carry the plan through."³⁵

In 1935, Johnson wanted to grow his company, but lacked the necessary funds. Ironically, it was this dilemma that led to the massive franchising growth that followed. Lacking the cash needed

to open a new restaurant, he started franchising aggressively. Initially, he was able to open one company store for every 10 franchised stores. In the late 1930s, this number had grown to two company stores for every 10 franchised units.³⁶ By 1940, the chain boasted 130 restaurants.³⁷ Growth was strong in the 1930s, but then, World War II almost forced the company into bankruptcy. After the war, closed units were re-opened and new ones were built. Surviving a depression and a major world war prompted Johnson, and later his son, to be conservative in matters of cash flow.³⁸ Johnson had been in debt in his early years of growing the chain, and he did not want to be plagued by it later on. As a result, the company grew in the 1950s and 1960s through cash flow from operations, rather than by taking on debt. By the 1970s, the company had cash reserves of \$90 million.³⁹

Working manager is key

The "working manager" concept was used at Howard Johnson's restaurants.⁴⁰ Managers were expected to perform manual labor and pitch in as needed. Cutting labor cost was a priority at the unit level; therefore, managers were expected to work side by side with employees in order to keep the number of employees at a minimum.

Bonuses to managers were paid on the basis of cutting costs.⁴¹ Managerial salaries were generally below market, and hours were long. Because of these conditions, gradu-

ates of hotel and restaurant schools were apprehensive about careers with Howard Johnson's.

The elder Howard Johnson's style of management was one of fear and intimidation. His son, Howard B. Johnson, once commented, "He never took a breath for 40 years, and he didn't think much of anybody who did. He was aggressive and demanding, but if you kept step with him, he was a very big supporter."⁴²

Layout, design fit format

The restaurant typified what is known as the coffee shop style of layout. It represented a merger of a soda fountain on one side of the building with a more formal dining room on the other.⁴³ Desserts and ice cream were assembled from the counter, while regular menu items were processed in the kitchen. Customers entered through a vestibule and were greeted by a host or hostess in the center of the building. A cash register and ice cream displays were located in this small waiting area, with the counter with stool-type seats at the right. To the left was the dining room with booths or tables with chairs. Some restaurants had additional dining rooms added on to the side of the building where the main dining room was located.

The decor of the restaurant featured the orange roof and blue and white sign. A weathervane was perched on the roof and the Simple Simon and the Pieman logo adorned the entrance of the building. Although various building

styles existed, most still followed the coffee shop format. In the 1990s, design changes with the building and interior took place with the aim of reflecting a more modern look. The orange roof remains, but new color schemes were added to include white, orange, and teal blue. An updated store in Canton, Massachusetts, included a triangular arch over the entrance with colorful banners and flags.⁴⁴

Operations stress control

Howard Johnson's used a commissary approach to supplying its restaurants, thus reflecting a degree of vertical integration. Food items were originally produced in a manufacturing facility in Wollaston, Massachusetts, and then trucked to individual restaurants where they were "finished" by short order cooks. This approach was utilized in order to keep consistency and control uniform over a large geographical area.⁴⁵ It also offered the advantage of economies of scale which helped reduce costs.⁴⁶ As the chain expanded, more commissaries were built. It was the commissaries – not the restaurants – that eventually turned out to be the most profitable part of the business.⁴⁷

The items delivered to restaurants were mostly in frozen form and included ice cream and entrees. At the restaurant, cooks used a short order approach to food preparation. Only three main methods of food preparation prevailed at the unit level: frying, baking, and grid-

dling.⁴⁸ Deep fat fryers were used on the famous clams and fish items, as well as French fries. Ovens and microwaves heated up frozen items and steam tables kept food warm. Grills were used to prepare the well-known frankfurters, as well as hamburgers. Expensive labor was not needed in the kitchen since the actual recipes were prepared at the commissary.

Operations at the unit level of the restaurant were highly systemized. The "Howard Johnson Bible" outlined all rules and procedures on how to run the restaurant.⁴⁹ Later, Ray Kroc would follow this practice of operating "by the book" in the running of McDonald's.

Lessons are learned

Howard Johnson's definitely did many things right. Although a number of lessons can be learned from this successful chain, there are four that are prominent.

- **First model:** The Howard Johnson's franchise system offered the first model of how a successful restaurant chain should grow. The restaurant franchise success formula began with Howard Johnson's. Although there were other franchises available in the food service industry, Howard Johnson's was the first to expand to such a large size. What made the chain successful was its emphasis on consistency and proper location of stores. The orange roof, the same menu in each restaurant, and the placing of restaurants at high traffic locations all contributed to franchise success.

His son, Howard B. Johnson, commented, "He was the first person to realize there was very limited food service on the U. S. highways. He also realized early on you should develop a product line that was consistent so people would trust it."⁵⁰

- **Alternate markets:** A company can survive during critical times by looking for alternate markets. Howard Johnson can be credited as one of the first entrepreneurs to think "outside the box." When faced with debt and the perilous years of the depression, he viewed the franchise relationship as an innovative solution. When faced with massive gas rationing, and the problems of World War II, he sold his products to alternate markets, i.e., the military. After the elder Howard Johnson's retirement, his son continued his legacy by expanding the chain rapidly and looking at markets outside the coffee shop restaurant segment. The Ground Round and Red Coach Grill concepts were successful attempts at diversification within the restaurant industry.

- **Consistency:** Consistency of operations is necessary for successful chain expansion. Although taken for granted today, Howard Johnson's was the first major chain to illustrate the need for a consistent level of service and product quality.⁶¹ Predictability was important to the traveling public during the 1950s and 1960s. Few restaurants at the time offered a consistent product and service over

such a wide geographical area. While it is true that modern chains like McDonald's have since taken this concept to new heights, the core competency of consistent product delivery was initiated with Howard Johnson's.

- **Success multiplies:** The success of one chain can lead to the birth and expansion of other chains. The success of Howard Johnson's directly led to the expansion of Dunkin Donuts. William Rosenberg, founder of Dunkin Donuts, once commented, "I saw what he (Howard Johnson) was doing with franchising and thought it was such a good idea; he became the impetus for me. The only guy I saw move so fast was Howard Johnson. He was the No. 1 food operation in the early 1950s and had been going since the 1930s."⁵² Other chains, motivated by the lure of success, entered the restaurant industry and expanded aggressively. McDonald's, Burger King, Denny's, and others soon found that they could compete and expand in a growing competitive market.

Lessons learned from fall

Unfortunately for Howard Johnson's, its most powerful lessons are derived from its decline. Four are especially noteworthy.

- **Success not ensured:** Past success does not ensure future success and can actually lead to demise. When Howard Johnson's was at its peak in growth, few would have suggested that the chain might someday have fewer

than 60 restaurants. After all, Howard Johnson's represented an American success story with humble roots beginning in 1925. The company was a symbol of how a hardworking entrepreneur could be successful in America. Howard B. Johnson once commented, "I've met a handful of smart men in my lifetime, and he was one of the brightest I ever met. He was an American entrepreneur, one of the fellas that helped build this country. This country breeds these types of people, and thank God it does."⁵³

Nonetheless, the chain fell and fell hard. Critics of the chain noted that for years the company was not innovating or responding to changes in the industry.⁵⁴ Are there large restaurant chains today that could follow suit? One would question whether successful ventures like McDonald's, Wendy's, or Denny's could ever fail. Indeed, back in the 1960s, many probably thought it would never happen to Howard Johnson's either.

The success of Howard Johnson's revolutionized the restaurant, lodging, and franchise delivery systems. It also brought on a new threat, competition. With Howard Johnson's as a role model, other chains soon entered the industry and created a crowded and competitive environment. Soon, only the strongest companies survived. Herein lies one of the ironies of the marketplace; impressive success can lead to organizational decline.⁵⁵

Indeed, the list of successful restaurant chains which ran into

trouble is a long one, and would also include such names as Rax, Chi-Chi's, Steak & Ale, Checkers, and Sambo's.⁵⁶ In the case of Howard Johnson's, the chain grew to more than 1,000 units in the 1970s. Howard Johnson motels, which were adjacent to many restaurants, helped ensure a steady source of customers. This comfortable arrangement, plus a good brand name in the eyes of the public, led to an "it can't happen to us" attitude. Decline resulted when new competition entered the marketplace and the chain failed to adjust to these changes.

Management complacency is a serious problem for many successful organizations. When things are going well, decision makers tend not to critically assess problem areas that could lead to future problems.⁵⁷ As Pine⁵⁸ put it, "Fix it even if it's not broken" is an axiom that is inherent to the restaurant business.

- **Reinvestment necessary:**

Reinvesting profits into the organization is fundamental to meeting the demands of a changing market. Howard Johnson was weary of debt. He started the company in debt and franchised because he did not have cash to expand. The result in later years was a conservative approach to management by building up large cash reserves and not spending it on innovation. This approach proved to be instrumental in the downfall of the chain. Without investments in the changing market, the chain

watched helplessly as the competition passes them by. Baskin Robbins took market share away because Howard Johnson's did not expand into downtown ice cream parlors. Stouffers took away business from the commissary frozen food side of the company because Howard Johnson's did not want to invest additional money.⁵⁹

The situation was worse in the actual restaurant industry. Competitors like McDonald's, Long John Silver, and KFC came in with better quality products at lower prices. Instead of battling the competition, Howard Johnson's chose to stand still with the same menu and same concept that had existed for years. This strategy could not have come at a worse time. The restaurant industry was expanding and competition was heavy. The result was a shakeout of weaker competitors. Smaller chains collapsed altogether, while large chains like Howard Johnson's shrank dramatically.

- **Value needed:** Failure to provide value and an overemphasis on cost cutting can drive away customers. During the 1960s and '70s, Howard Johnson's became more focused on real estate, bottom line profits, and stockholders.⁶⁰ While these factors are essential to running a restaurant chain, the overemphasis led to lost customers. The quality of food, service, and cleanliness declined, which led to a loss in market share.⁶¹

Restaurants were asked to squeeze payroll, conserve water by

letting the customer ask for it, and removing placemats.⁶² Even the competition noticed the pre-occupation with cost cutting. "Every time I saw Howard Johnson he was always telling me how he was going to cut costs further," remarked one competitor. "I don't think he spent enough time at his restaurants. If he'd eaten in his own restaurants more instead of lunching at '21,' he might have learned something."⁶³

In many respects, delivering value simply refers to doing the basics well. Like other restaurant chains that experienced similar difficulties, Howard Johnson's food quality depreciated over time, and "menu fatigue" resulted from the lack of enhancement of food offerings.⁶⁴ The overemphasis on cost containment resulted in decreased speed, professionalism, and restaurant ambiance.

• **Competitiveness needed:**

Ultimately, a company must develop the appropriate business strategy in order to stay competitive. From the founding of the company until the late 1960s, Howard Johnson's was operating in the right market niche – the coffee-house/family restaurant segment of the industry. But as the 1970s progressed, the company was suffering with aging restaurants and a decaying market niche.⁶⁵ Efforts were made to expand into more sophisticated markets with Red Coach Grills and Ground Round restaurants. On the whole, these efforts were successful.

In the 1970s, Howard Johnson's

was reorganized into two restaurant divisions, the Orange Roof and the Specialty Restaurant Division.⁶⁶ The Orange Roof Division consisted of Howard Johnson's restaurants, New Edition, The Choice if Yours, Turnpike Unites, and Truck Stops. The Specialty Restaurant Division consisted of Ground Round, Red Coach Grills, and a concept called Lucky Lil's. All were upscale concepts that focused more on higher check averages and liquor sales.

In spite of the diversification attempts, the company could not seem to implement a coherent strategy. Howard B. Johnson was worried about repositioning the company as the 1980s approached.⁶⁷ He admitted that changes were taking place, but he was not really sure where the industry was heading. Johnson commented:

We all want the dinner business, but you have those horrible margins involved in putting out the plate. So we have to sell a lot of liquor, but in a coffee shop you can't sell more than seven or eight percent liquor. I don't have the key yet. I'm sure that we're making the right long-term moves, but I don't have the key to shrinking return on investment or profit margins yet.⁶⁸

The core problem was simple: the skills required to execute an effective external growth and development strategy differ from those required to implement an internal strategy. External growth places greater strains on internal capital and requires expertise in other

industry segments. Howard Johnson's was not prepared to meet this challenge.

Clearly, there was a strategy, but without the heart. The commitment to a single direction was lacking. The company expanded into new markets, but its core competency – the coffee shop/family dining segment – was left in shambles. Yet it was this segment which represented the bulk of revenues, and it quickly slid as the 1980s progressed. Hence, Howard Johnson's developed into a classic case of a company that was "stuck in the middle."⁶⁹

Howard Johnson's provides researchers, practitioners, and students with an excellent opportunity to study an organization that once revolutionized an industry segment and later spiraled downward in decline. Inherent in the issues is the idea that organizational success is a temporal concept, and yesterday's achievements ultimately have little to do with tomorrow's performance. These lessons are especially noteworthy in today's fast-paced business environment where both business startups and dissolutions are occurring at record paces. Indeed, history will remember Howard Johnson's for both its success and failures.

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