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## **Piece of the Action**

### **Papa Murphy's ups the ante in the pizza wars with take-and-bake pies**

By Deborah Silver, Senior Editor

Here is how the ordering process works at Papa Murphy's Take 'N' Bake Pizza's 588 units.

The customer stands in front of a glass counter and tells an employee on the other side what kind of pizza is wanted. An employee pulls out a cardboard baking tray, on top of which is house-made dough suitable for 425F baking in a traditional oven rather than 600F in a standard pizza oven. Sauce is spread over the dough. Twenty-three fresh toppings, including grated mozzarella cheese, chicken, pineapple and a variety of vegetables and meats are on display, ready to be selected by the customer.

Ingredients are measured and piled on the dough in generous portions (80 pepperoni slices and 16 ounces of cheese on a large pepperoni pie, for example).

A second employee takes over, wrapping the pizza in clear cellophane and sliding it across the counter to the customer. Simple baking instructions are passed on to the customer: unwrap the pizza and place it on its cardboard baking tray in the oven for 15 minutes. Total in-store time lapsed: less than 5 minutes.

It's that easy and, by all indications, a huge success.

Since its inception five years ago, Papa Murphy's has carved out a unique and growing niche in an industry long dominated by four major players—Pizza Hut, Domino's, Little Caesars and Papa John's. Last year, sales at the Vancouver, Wash.-based chain jumped 41% to \$250 million, with an average of \$560,000 per unit. This year revenue is expected to increase 20%. By year-end, 130 units will be added; the chain is expected to grow by the same in 2001. Already the eight-largest pizza chain, according to Restaurants and Institutions Top 400 rankings, Papa Murphy's soon might be giving the top national chains a run for their money.

"We offer an abundance of high-quality, fresh ingredients at a low price point on a pizza that can be cooked when the customer is ready to eat," says Papa Murphy's President Thomas Morrell. "In the pizza-chain business, that's cutting edge."

### **MORE THAN PIZZA**

To remain a front runner, Morrell has decided pizza alone is not enough. The 588 Papa Murphy's units also offer take-and-bake lasagna and chocolate chip cookie dough, as well as salads. A 16 1/4-inch, large pizza, bigger than the 14-inch, large pie found at other pizza chains, was recently introduced. Specialty pizzas, such as barbecue chicken or steak (currently being tested), are featured regularly, and other take-and-bake products, such as calzone, are being developed.

"We're in the home-meal-replacement business," says Morrell. "If we can find a good product, we'll try it. We need to stay innovative if we want to maximize our potential."

Increasing its edge also requires keeping product cost down, which Papa Murphy's has done. Cost of a large cheese pizza in company-owned stores is \$7.99 and \$12.99 for a combination; the concept's signature one-size, double-crust pizza, weighing 51/4 pounds, also sells for \$12.99.

"The pizza category is the biggest next to hamburgers, and, yes, there are already major players," says Scott Ackerman, research analyst with US Bancorp Piper Jaffray in Minneapolis. "But that's not a negative in this segment because ultimately it comes down to execution and the ability to serve products at compelling values."

## **FRANCHISE FRIENDLY**

Papa Murphy's also offers franchisees, who own 95% of the stores, a good deal.

With no need for ovens or delivery vehicles, overhead costs are low. When the size of a pie changes, as it did recently with the introduction of the new large, operators do not need to invest in metal baking pans; disposable trays are purchased weekly and can be easily and inexpensively altered.

Space needs also are minimal since there is no seating. The typical restaurant is 1,200 square feet, though sizes range from 800 square feet to 2,200 square feet.

There are other benefits. With no cooking or clean-up required, the number of employees—12 to 15, including all shifts—per store is low, a strong plus in today's tight labor market.

And so far, there is not a lot of competition in the take-and-bake arena. "They've developed a unique concept that can be easily executed, is centered on a few core products and has low investment cost," says David Geraty, a managing director at the Minneapolis-based investment bank Dain Rauscher Wessels. "I expect they'll have a lot of success growing the brand."

In addition, Papa Murphy's restaurants operate a limited number of hours daily. The opening shift comes in around 9:30 a.m. to set up for lunch and the evening shift typically locks the door by 9:30 p.m.

Unlike most major chains these days, Papa Murphy's is not looking for large-scale franchise operators. In fact, just the opposite. It only wants franchisees for whom their unit(s) is the primary source of income. "We strongly believe that you need the owner-operator to be in the store to be successful," says Morrell. "You'll never get that with an investor group."

Papa Murphy's franchisees must wait six months before opening subsequent units. After opening a second store, they can put a deposit down on up to three more sites, but those only can be opened at six-month intervals. And no matter how many units a franchisee ultimately owns, those stores must be within an hour of where the franchisee lives. A franchisee who chooses to open a site more than an hour away can go into partnership with another owner-operator, but only if the partner lives within an hour of the unit and is given decision-making responsibility for the restaurant. The company's largest franchisee owns 13 units and is in partnership on an additional 37.

## **WEST COAST ROOTS**

Papa Murphy's had its origins in two small take-and-bake pizza operations: California-based Murphy's Pizza and Oregon-based Papa Aldo's. Murphy's was known for its top-quality product but had weak management. Aldo's had strong management, but many of the ingredients used were frozen and its toppings were considered skimpy.

The two companies were bought by an outside investor in the late-1980s and in 1995 merged under

the name Papa Murphy's. For a number of years, the chain kept a low profile. "We wanted to make sure we had a concept that had legs," says Morrell, a 30-year veteran of the fast-food industry who was hired four years ago.

When the concept began to catch on, Morrell implemented an aggressive local marketing campaign focusing on print advertising and coupons. Regional television advertising was added recently but is used sparingly when new units open. In 2001, year-round regional and network advertising campaigns will be rolled out.

The days of keeping a low profile might be over for Papa Murphy's, but the company plans to be selective about where it will introduce the concept. Large metropolitan areas are out "until we can go in with a major presence," says Morrell. "Take-and-bake is in its infancy stage. It would be a mistake to rush its growth until we know that the concept is exactly right."

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