

## Teaching Note

### RUNZA: FROM NEBRASKA ICON TO NATIONAL AND INTERNATIONAL BRAND<sup>1</sup>

*Fabrizio Di Muro and Robert Mackalski wrote this teaching note as an aid to instructors in the classroom use of the case Runza: From Nebraska Icon to National and International Brand, No. W29265. This teaching note should not be used in any way that would prejudice the future use of the case.*

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#### SYNOPSIS

Runza National, Inc. (Runza), an iconic Nebraskan quick-service restaurant chain had saturated its home Nebraskan market, with eighty-two stores across the state. In June 2022, the company was considering expansion into other US states and Canadian provinces at a time of volatile labour markets and challenging economic conditions. To make a decision on the company's expansion options, the vice-president of Runza and her director of marketing assessed the uniqueness of the company, expansion market opportunities, and preferred modes of entry: franchise, corporate stores, and ghost kitchens.

#### LEARNING OBJECTIVES

This case explores differentiation and focuses on the place element of the marketing mix. After working through the case and assignment questions, students will be able to

- understand the sources of differentiation;
- analyze the advantages and disadvantages of targeting smaller and larger centres for a proposed future expansion;
- evaluate whether a company should expand into new markets, including new international markets;
- determine the desirable characteristics of a market for expansion, such as which US states a company should expand into, as well as which towns within a state a company should consider; and
- determine which mode of entry a company should use when considering a market expansion.

#### POSITION IN COURSE

This case is suitable for introduction to marketing and marketing management courses at the undergraduate and graduate levels. The case could also be used in an international marketing course at a similar level given the case features elements of international expansion, or in a general management course given its applicability to the resource-based view of the firm.

<sup>1</sup> All case facts and case research that are referenced in this teaching note are supported by the sources and information contained in the associated case document (product No. W29265) unless otherwise specified.

## RELEVANT READINGS

- Jay Barney, “Firm Resources and Sustained Competitive Advantage,” *Journal of Management*, 17, no. 1 (1991), 99–120, <https://journals.sagepub.com/doi/10.1177/014920639101700108>.
- Jay Barney, “Looking Inside for Competitive Advantage,” *Academy of Management Perspectives*, 9 no. 4 (1995): 49–61, <https://journals.aom.org/doi/abs/10.5465/ame.1995.9512032192>.
- Paul A. Gompers, “A Note on Franchising,” *Harvard Business Publishing*, February 29, 2012.
- Bill Taylor, “How One Fast-Food Chain Keeps its Turnover Rates Absurdly Low,” *Harvard Business Review*, January 26, 2016, <https://hbr.org/2016/01/how-one-fast-food-chain-keeps-its-turnover-rates-absurdly-low>.
- Surinder Tikoo, “Assessing the Franchise Option,” *Business Horizons*, 39, no. 3 (May–June 1996), 78–82, <https://www.sciencedirect.com/science/article/abs/pii/S0007681396900130>.

## SUPPLEMENTAL MATERIALS

- Daily Nebraskan, “Making a Runza Sandwich with Company President Donald Everett Jr.,” November 30, 2017, YouTube video, 4:05, <https://youtu.be/F93PIYpX408>.
- Eater, “Why Nebraska is Obsessed with the Runza Sandwich—Cult Following,” January 19, 2019, YouTube video, 1:46, <https://youtu.be/uolItMi4KgQ>.
- NTV News, “Shark Tank: Runza,” March 4, 2016, YouTube video, 3:22, <https://youtu.be/KgFBgA6Mj3A>.

## ASSIGNMENT QUESTIONS

1. What differentiates Runza in the fast-food restaurant space? How well do the differentiators provide a sustainable competitive advantage?
2. Is Runza better off entering smaller towns or larger towns and cities for its potential expansion?
3. Which US state(s) should Runza expand into? Please specify which town(s) it could consider for each state that you suggest for future expansion.
4. Which mode of entry should Runza use in its US expansion?
5. Should Runza expand into communities in Canada, such as the ones listed in the case? Please explain your reasoning.

## TEACHING PLAN

This case can be taught in a 90-minute session, with the following time recommendations for each Assignment Question:

Discussion point	Time (in minutes)
Introduction	5
Assignment Question 1	10
Assignment Question 2	15
Assignment Question 3	20
Assignment Question 4	20
Assignment Question 5	15
Conclusion	5

## ANALYSIS

### 1. What differentiates Runza in the fast-food restaurant space? How well do the differentiators provide a sustainable competitive advantage?

Armstrong, Kotler, and Opresnik write that companies can differentiate themselves through five different variables: product, services, channels, people, or brand image.<sup>2</sup> From the case, it seems that Runza has three prominent areas of differentiation: product (the Runza sandwich itself), brand, and channel.

#### Product Differentiation

The Runza sandwich, or *bierock*, is a unique offering—a stand-alone in the fast-food space. Students can be asked if this is a sandwich that competitors would make. The distribution and kitchens of predominantly burger restaurants such as McDonald's, Burger King, or Wendy's are not set up for making bierock. Chick-fil-A specializes in chicken. Subway might be a closer competitor, but developing fresh, handmade products from scratch on location every day requires a skill and kitchen beyond what most competitors have the infrastructure to do.

That said, most of the bestsellers on the menu are commoditized restaurant foods: fries, onion rings, burgers. Even if Runza makes its burgers from scratch, some local restaurants do too, such as Culver Franchising System, LLC.

Some students will argue that maybe Runza's menu items taste better. But taste preference is deeply personal. Most burger restaurants will claim that "ours tastes better." So what else makes Runza unique?

#### Brand Differentiation

The Runza brand carries the soul of Nebraska with it. "Nebraska nice," friendliness, heartland down-to-earth and not flashy, and Cornhuskers football are part of brand Nebraska, which in turn carry on to the Runza brand. Runza gets endowed with these associations and perceptions since it was born out of Nebraska, grew with Nebraska, and has saturated almost every part of the state where there are significant population numbers (see case Exhibit 1). The Nebraska company taps into the local culture and nuances of the state. A question the company will have to tease out is how to use "Nebraska in a sandwich" in its expansion.

#### Channel Differentiation

The case suggests that Runza is more comfortable going into towns that are smaller than (most) competitors would consider entering. This may be for different reasons, many of which are unclear from the case: costs per restaurant unit may be lower or product sales margins may be higher, requiring smaller sales volumes; Runza may just have more comfort, experience, expertise, or ability to connect with small-town consumers in Nebraska. We do know that Runza's franchise costs are lower, largely driven by reduced advertising royalties (1 per cent versus 4 per cent for other fast-food companies).

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<sup>2</sup> Gary Armstrong, Philip Kotler, and Marc Opresnik, "Customer Value-Driven Marketing Strategy: Creating Value for Target Customers," chap 7 in *Marketing: An Introduction*, 14th edition, (Upper Saddle River, NJ: Pearson, 2020), 191.

### Sustainable Competitive Advantage?

Do these differentiators provide a sustainable competitive advantage for Runza? Students can be challenged to assess this question using Jay Barney's value, rarity, imitability, and organization framework. This model asserts that a firm has a *competitive advantage* when a firm provides value that is not simultaneously being implemented by competitors, and a firm has a *sustainable competitive advantage* when four indicators—value, rarity, imitability, and organization suitability—are present.<sup>3</sup> Probing students on the framework's four dimensions as they relate to Runza can yield interesting insights.<sup>4</sup>

Barney's questions:

- *Value.* Do a firm's resources and capabilities enable it to exploit opportunities and neutralize threats?
- *Rarity.* How many competing firms already possess the valuable resources and capabilities?
- *Imitability.* Do firms without a resource or capability face a cost disadvantage in obtaining it compared to firms that already possess it?
- *Organization.* Is the firm organized to exploit the full competitive potential of its resources and capabilities?<sup>5</sup>

A strong case can be made that the Runza sandwich itself provides a sustainable competitive advantage for the company. The unique taste, made fresh from scratch daily at the local restaurant clearly has excited customers. The bierock sandwich is also rare; it is a novelty in the fast-food space. Bierocks are also the flagship offering of the company. Since the company was founded on the bierocks, it seems fair to say that the company has been organized around marketing it.

To elaborate on the product differentiation discussion above, it is also doubtful that a major fast-food competitor would be interested in adding a bierock to its menu. In fact, it can be troublesome for a company to venture outside of its established products. Students may consider how unsuccessful McDonald's was with its foray into the pizza market. McDonald's found that pizza was a hassle to make, had long cooking times, slowed down service, jammed up drive-through lanes,<sup>6</sup> and required expensive restaurant remodels for franchisees.<sup>7</sup> With a bierock menu addition, competitors would need to remodel to offer the sandwich, precisely when there is already a construction backlog. In addition, the market for bierocks (unlike pizza) is relatively small—and the bierock has only demonstrated sales traction in Nebraska.

Some students may point out that if the bierock sandwich sales took off, it would be easier to buy out Runza than just compete. Restaurant Brands International (RBI) purchased Tim Hortons, Popeyes Louisiana Kitchen Inc., and Burger King, for example. Students may argue that an acquisition of Runza would fit in with the greater RBI strategy, which involves owning and building "the most loved restaurant brands in the world."<sup>8</sup>

The Runza brand differentiation is valuable to Nebraskan consumers insofar as it stirs up state loyalty. The years of marketing, advertising, and direct experiences that consumers have with the company have created brand equity (awareness and a favourable brand image) for Runza and make the offering harder to replicate.

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<sup>3</sup> Jay Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17, no.1 (1991): 99–120.

<sup>4</sup> Jay Barney, "Looking Inside for Competitive Advantage," *Academy of Management Perspectives* 9, no. 4 (1995): 49–61.

<sup>5</sup> Barney, "Looking Inside for Competitive Advantage."

<sup>6</sup> Tereza Shkurtaj, "MC-What? When Did McDonald's Sell Pizza?," *U.S. Sun*, January 9, 2022, <https://www.the-sun.com/money/4427190/when-did-mcdonalds-sell-pizza/>.

<sup>7</sup> Alexandra Cass, "The Untold Truth of McDonald's Pizza," *Mashed*, November 30, 2020, <https://www.mashed.com/253077/the-untold-truth-of-mcdonalds-pizza/>.

<sup>8</sup> "RBI Vision and Values," Restaurant Brands International, accessed September 21, 2022, <https://www.rbi.com/English/about-us/rbi-vision-and-values/default.aspx>.

Indeed, the company sponsors events, as well as partners with local establishments throughout the state (e.g., sponsorship of the state's walk to end Alzheimer's, partnership with Nebraska athletics) and is able to penetrate less-populated areas of the state. However, what gives the brand its sustainable advantage in Nebraska might also be completely irrelevant to consumers outside of the state—potentially creating a competitive disadvantage. As it expands, Runza will have to adjust its brand meaning to provide more value to out-of-state markets.

Finally, channel differentiation may soon be challenged by competitors. As discussed above, Runza may be able to enter smaller markets because of a lower cost advantage. But, as labour wages rise, the fast-food giants (e.g., McDonald's, Wendy's, Burger King) will be highly motivated to transition to greater automation and use of robots. With lower variable costs due to automation, fast-food giants may be eager to enter small markets, which appear to be Runza's most profitable segments. As such, Runza's channel advantage may be compromised. In this context, Runza's future will involve balancing its expensive, labour-intensive product differentiation (including made from scratch) with cost-cutting measures.

## **2. Is Runza better off entering smaller towns or larger towns and cities for its potential expansion?**

Student answers will vary—some students will suggest that the company is better off focusing on smaller towns, while other students will argue the opposite, that Runza should be focusing on larger towns and cities. Perhaps the best answer, however, is somewhere in the middle; in other words, Runza should be targeting a mix of both smaller and larger towns, since each offers distinct advantages. Below, we discuss some of the benefits and drawbacks of both smaller and larger towns.

Targeting smaller towns for its potential expansion is a better option that it might seem at first glance. First, Runza's top executives have indicated that they are comfortable with this strategy and have executed it successfully before. Both these points are particularly important because the company's attitude and frame of mind will influence its chances of success. If Runza is confident that expansion into smaller towns will be successful, then its chance of success in using this strategy increases. Further, smaller towns offer some distinct advantages. To begin with, there is typically less competition from other fast-food entities, as some, like Wendy's and Burger King, are more likely to ignore smaller towns and focus their efforts on larger centres. Second, costs might be lower compared to larger towns—for instance, it is reasonable to expect that the cost of land and construction (or rent costs in the event the company chooses a pre-existing structure for a location) will be lower in a smaller town. Third, potential consumers may be more forgiving, at least at first. They might just be excited that a Runza is opening up in their (small) town and, thus, may be more willing to try the products and be more patient when errors or inaccuracies are made as the new restaurant becomes established. Fourth, failure in a smaller town is probably less costly than failure in a larger town, since the company's failed attempt will likely receive less media coverage than if the failure were to occur in a larger centre.

On the other hand, opening restaurants in smaller towns can have some drawbacks. In a smaller town, there is naturally less demand for a company's products. There may be a good reason why there is limited competition in a smaller town—it could be that most major fast-food chains have determined that there simply is not enough demand over the long term to justify the placement of a store in that location. Also, it might be more difficult to find labour in a smaller town, since there are fewer potential employees to draw on. Further, when employees quit or are fired, the pool of potential replacements is smaller than what it would be in a larger centre. This could be particularly problematic, given the case highlighted how labour intensive Runza's products are. Finally, some small towns may prefer to support the local neighbourhood restaurant, rather than the "big" business.

Larger towns and cities offer some advantages that smaller towns do not. First, larger towns naturally offer more potential consumers, which means that a Runza restaurant would have a greater chance of success. Second, it should be easier to staff Runza's restaurants in larger towns, because there is a greater applicant pool to choose from, and there are more potential replacements when employees quit or are fired. Further, potential employees may have more industry experience, since there are more fast-food operations that they may have worked at in a larger centre. Third, it may be easier to find a pre-existing location—a larger centre might have more alternative spaces available that Runza can slot its business into.

Of course, there are disadvantages to locating the business in larger towns. To begin with, the competition will be greater, as there will likely be more fast-food chains, and perhaps more local competitors as well. Second, costs are likely to be higher in a larger town. According to the case, a stand-alone store in a small town costs US\$1 million less to set up than one in an urban city (see case heading Franchising). Finally, a restaurant failure in a larger town might draw more attention than in a smaller one.

**3. Which US state(s) should Runza expand into? Please specify which town(s) it could consider for each state that you suggest for future expansion.**

Students' answers will vary. Some students will select "all or nothing" expansion strategies. In other words, some students will suggest that the company open a small number of restaurants in each of the nine states under consideration. On the other hand, some students will suggest that Runza should open a fairly large number of restaurants in only one of the nine proposed US states. While these approaches have some merit, we propose that Runza is better served by taking a more nuanced approach: focus its expansion on the two or three US states that offer the best chance of success. This would likely mean that Runza should be looking to expand into states whose demographic profile is most similar to that of Nebraska, and, from a distribution standpoint, the states which are closest to the Nebraska border. Proximity to the state border is an important consideration because border residents are more likely to be aware of the Runza brand through travels and media spillovers. Given Nebraska's low levels of tourism (it ranks forty-eighth out of the fifty states for tourism), Runza's brand awareness likely declines further away from the state.<sup>9</sup>

One option for Runza would be to further expand into Colorado, Iowa, and Kansas. These US states would all be a good fit for the company, since it has already opened a small number of restaurants in each of these states, so has some experience, market knowledge, and sales data that could be useful for marketing evaluation and additional expansion. In addition, the demographic composition of each state aligns well with Runza's product offering. According to the case, approximately 40 per cent of Iowa's population is of Germanic descent, while 22 per cent and 34 per cent of the population of Colorado and Kansas, respectively, is of Germanic descent. In theory, this should result in greater acceptance of Runza's products, particularly, the Runza sandwich.

In Colorado, Runza might want to consider opening restaurants in Fort Collins (population of approximately 166,000), or Greeley (population of approximately 105,000). Opening restaurants in these cities might be particularly advantageous because they are located close to the Colorado–Nebraska border, and while they are somewhat sizable in terms of population, they are still relatively small cities. Smaller towns close to the Nebraska–Colorado border that might be interesting to consider include Sterling (population of 14,421) and Fort Morgan (population of 11,311).<sup>10</sup>

<sup>9</sup> "The Most Visited States in the United States," Vivid Maps, accessed May 20, 2022, <https://vividmaps.com/most-visited-us-states/>.

<sup>10</sup> "Colorado Cities by Population," Colorado Demographics by Cubit, accessed June 1, 2022, [https://www.colorado-demographics.com/cities\\_by\\_population](https://www.colorado-demographics.com/cities_by_population).

In Iowa, the company might wish to consider opening restaurants in Sioux City (population of 82,000), and Fort Dodge (population of 25,000). These towns are close to the Nebraska–Iowa border. Alternatively, if the company wanted to consider even smaller towns, Carter Lake (population of 3,799), and Onawa (population of 2,788) are both small and close to the state line.<sup>11</sup>

In Kansas, Runza has a number of options. It can continue to expand around its initial location in Lawrence. Here, the company could consider opening restaurants in Topeka, the state capital (population of 125,000), or nearby Olathe (population of 139,000). Alternatively, Runza might consider opening restaurants in smaller cities that are relatively close to the Nebraska–Kansas border, such as Manhattan (population of 55,000) or Salina (population of 45,000). If the company wants to focus on even smaller towns, it could consider Marysville (population of 3,275) or Clay Center (population of 4,007).<sup>12</sup>

Alternatively, instead of expanding into Colorado, Iowa, and Kansas, Runza could choose to expand into Wyoming, South Dakota, and Missouri. These US states could also be attractive for Runza for a few reasons. First, each of these states shares a border with Nebraska, meaning that they are not too far away. Second, the demographic composition of these states should be favourable for a Runza expansion, since the it aligns well with Runza's product offering. For instance, the case highlighted that approximately 40 per cent of South Dakota's population is of German descent, as is approximately 26 per cent of Wyoming's population, and 27 per cent of Missouri's. South Dakota<sup>13</sup> and Wyoming<sup>14</sup> are also, from a population standpoint, relatively small states composed of mostly smaller cities and towns. This is favourable from Runza's standpoint, given the company is comfortable with establishing operations in smaller towns and cities.

For instance, in South Dakota, Runza could consider expanding into Sioux Falls, the state capital, which, according to the case, has a population of approximately 190,000. If Runza felt that this market was too large, then the company could expand into smaller cities, such as Rapid City (population of approximately 75,000), Aberdeen (population of approximately 30,000), Vermilion (population of approximately 12,000) or Yankton (population of approximately 15,000), all located close to the Nebraska–South Dakota border).<sup>15</sup>

In Wyoming, the most populous city is Cheyenne, the state capital, with a total population of approximately 65,000. This city is still relatively small and is also close to the Wyoming–Nebraska border. Alternatively, the company could consider Laramie, which is smaller (population of approximately 32,000), but further from the Wyoming–Nebraska state border. Some potentially interesting choices that are very close to the state line include Torrington (population of 6,597) and Wheatland (population of 3,543).<sup>16</sup>

In contrast, Missouri is a larger state containing a greater number of big cities. Here, Runza could consider expanding into Kansas City, which although larger (population of approximately 153,000), Perrett noted it had similar demographics to those of Nebraska. Further, it was not too far from the Nebraska–Missouri border. Alternatively, the company could consider entering St. Joseph (population of approximately 75,000), a smaller city that was also close to the Nebraska–Missouri border. Smaller-town alternatives that are also close to the state line include Maryville (population of 11,641) and Savannah (population of 5,170).<sup>17</sup>

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<sup>11</sup> "Iowa Cities by Population," Iowa Demographics by Cubit, accessed June 1, 2022, [https://www.iowa-demographics.com/cities\\_by\\_population](https://www.iowa-demographics.com/cities_by_population).

<sup>12</sup> "Kansas Cities by Population."

<sup>13</sup> "South Dakota Cities by Population," South Dakota Demographics by Cubit, accessed June 1, 2022, [https://www.southdakota-demographics.com/cities\\_by\\_population](https://www.southdakota-demographics.com/cities_by_population).

<sup>14</sup> "Wyoming Cities by Population," Wyoming Demographics by Cubit, accessed June 1, 2022, [https://www.wyoming-demographics.com/cities\\_by\\_population](https://www.wyoming-demographics.com/cities_by_population).

<sup>15</sup> "South Dakota Cities by Population."

<sup>16</sup> "Wyoming Cities by Population."

<sup>17</sup> "Missouri Cities by Population," Missouri Demographics by Cubit, accessed June 1, 2022, [https://www.missouri-demographics.com/cities\\_by\\_population](https://www.missouri-demographics.com/cities_by_population).

#### 4. Which mode of entry should Runza use in its US expansion?

For their response to this assignment question, student answers will vary. Some students will suggest that Runza should rely on only one mode of entry. In this vein, some students will suggest that Runza uses only company-owned stores in its US expansion, while others will suggest that the company should rely exclusively on the franchise model. Finally, some students will advocate for a completely virtual mode of entry through the utilization of ghost kitchens. However, relying exclusively on one mode of entry is not optimal, since each option offers its own unique set of advantages and disadvantages. Focusing on only one mode of entry would mean being unable to take advantage of the benefits of the other modes and of mitigating the disadvantages of the chosen mode.

As a result, using a mix of entry modes would probably be most beneficial for Runza. In its US expansion, Runza should mainly expand through the use of company-owned stores (60 per cent), develop franchisee-owned stores under certain conditions (25 per cent), and complement the mix with ghost kitchens (15 per cent). The somewhat heavy reliance on company-owned stores seems to be the right approach for Runza, which still operates numerous company-opened stores. The case detailed how each Runza store prepared its own products according to specific recipes and standards. For instance, the sandwiches were all handmade from scratch using mostly locally sourced beef for optimal freshness, while the meat-and-cabbage mixture was made in-store and refrigerated the night before with all ingredients combined by hand. Further, even when the company has used franchises, it has tended to rely on past employees as franchisees; moreover, the company preferred that franchisees have a very active role in running the restaurant. Given Runza's approach and its focus on quality, the company would likely want to retain ownership of a significant amount of its stores when engaging in an important strategic initiative such as an expansion.

While a strong focus on company-owned stores seems appropriate for Runza, the company should also utilize franchises and ghost kitchens where appropriate. Some franchises will likely be necessary during the company's expansion efforts. This is partly because, in some cases, it might be too expensive to open a company-owned store, and a franchisee can help manage these costs. In addition, there may be cases where a franchise is appropriate even if the costs of a company-owned store are not particularly high, since potential franchisees may have greater local market knowledge. Given Runza's affinity for company-owned stores, franchises would be best used in situations where franchisees have greater resources or knowledge (competition, consumer preferences, taxation, regulations) than Runza's corporate office and its top executives. Geographically, the further away from Runza's home base (Nebraska), the greater the attraction for franchisee-owned restaurants. The franchise model, of course, requires well-vetted franchisees.

Runza should also strongly consider using ghost kitchens as part of its expansion. As detailed in the case, ghost kitchens are essentially food-preparation units that do not serve customers at a restaurant, but instead fulfill online orders from third-party platforms. Ghost kitchens grew in popularity during the pandemic, and their long-term future is unknown. However, most industry experts believe that ghost kitchens will continue to play a role in the quick-service restaurant industry, since consumers are more accustomed to the idea of ordering fast food from home.<sup>18</sup> Making 15 per cent of its expansion units ghost kitchens means that Runza is not investing too deeply in this trend should it not continue within the quick-service industry. Yet, at the same time, Runza would have enough of a foothold with this type of unit should it become more dominant. Students should be aware that a ghost-kitchen strategy in new markets will require a significant commitment to brand building (awareness and reason to buy). Uber Eats and DoorDash Inc., have advised Runza to only open ghost kitchens if the company already has a physical presence. In this context, ghost kitchens are best used as a tool to further penetrate a market, rather than a lead tool with which to enter a market.

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<sup>18</sup> Jeffrey Miller, "What's a Ghost Kitchen? A Food Industry Expert Explains," The Conversation, July 1, 2021, <https://theconversation.com/whats-a-ghost-kitchen-a-food-industry-expert-explains-163151>.



While Runza would still be required to staff its ghost kitchens, the company would not need to seek prime real estate since it would not be serving food to customers at this location, and customers would not be picking up food. Further, since customers would not be served in-house at these locations, the company could seek smaller spaces for its ghost kitchens. These factors would help keep costs down relative to a traditional restaurant unit. Runza could begin by opening ghost kitchens in smaller towns, which would allow the company to more easily fulfill the demand generated by these units, considering the number of orders and order sizes would be smaller due to a more limited population. Further, if any of the company's ghost kitchens fail, this will likely receive less publicity in a small town than it would in a larger centre. Once Runza has succeeded with ghost kitchens in smaller communities, it could try to use this type of unit in larger cities.

**5. Should Runza expand into communities in Canada, such as the ones listed in the case? Please explain your reasoning.**

Runza would be wise to strongly consider expanding into Canada—especially if there is a strong franchisee. Entering the Canadian market would be a good first foray into the international arena, given Canada's geographical proximity to Nebraska (it is the closest international market to the company's home base), which reduces the logistical difficulties of an international expansion. Further, Canadians and Americans have a relatively similar taste in fast food—in fact, a number of American fast-food chains, such as McDonald's, Burger King, Wendy's, Five Guys, Fatburger North America Inc., and even Popeyes, have successfully established operations in Canada. There is no reason to think that Runza's products and value offering would be poorly received by Canadians. And, given that the American dollar has historically been stronger than the Canadian dollar, investments from the company are expected to be significantly less. Of course, profits would also be earned in Canadian dollars.

In short, Runza should expand into some (but probably not all) of the Canadian communities that were mentioned in the case. Manitoba may be ideal for a potential Runza expansion for a few reasons. To begin with, Manitoba is probably the closest province to Nebraska (it is located directly north of Nebraska, with South Dakota and North Dakota to the south of the Canadian border). Second, there are some similarities between Manitoba and Nebraska—both are cold-weather, blue-collar states with an agricultural base. Third, both have a significant proportion of inhabitants with Ukrainian or German heritage. As a result, it is reasonable to expect that Manitobans would receive Runza's product mix favourably.

In terms of specific cities to enter, this is somewhat dependent on whether the company prefers a smaller or a larger city. Portage la Prairie, a small town of 15,000 with agrarian roots, might be of particular interest as a starting point for Runza. One advantage of opening a store here is that there is limited competition from other fast-food chains.<sup>19</sup> Another possibility for Runza would be to open a store in Brandon. Brandon is similar to Portage in that it has an agrarian focus, albeit it is larger with approximately 51,000 inhabitants. There is more competition from other fast-food competitors than in Portage la Prairie, but it should also be noted that Brandon serves as a destination point for larger communities.<sup>20</sup> It was also the second Canadian location for Five Guys, so the city has successfully hosted new fast-food entrants before.<sup>21</sup> Entering smaller cities such as Portage la Prairie and Brandon carries the added benefit that if Runza were to fail in these markets, there would probably be less negative publicity than with a larger market.

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<sup>19</sup> "Manitoba," Municipality Canada, accessed June 1, 2022, <https://www.municipality-canada.com/en/province-manitoba.html>.

<sup>20</sup> "Stats at a Glance," You Belong in Brandon, accessed June 15, 2022, <http://economicdevelopmentbrandon.com/stats>.

<sup>21</sup> John Dobbin, "Observations, Reservations, Conversations," John Dobbin Blogspot, Friday, December 17, 2010, <http://johndobbin.blogspot.com/2010/12/five-guys-burgers-and-fries-winnipeg.html#:~:text=Back%20in%20November%20of%202009,Manitoba%20got%20their%20first%20location>.

Runza might also consider establishing a store in Winnipeg, the province's capital city with a population of approximately 700,000 inhabitants.<sup>22</sup> While Winnipeg would probably have the most competition from other fast-food chains, the city also hosts a significant portion of the province's Ukrainian and German population.<sup>23</sup> In addition, Winnipeg is often used as a test market for many new products, so its balanced demographic composition should enhance Runza's chances of success.<sup>24</sup> However, expanding into Winnipeg is a higher-risk proposition since a failed venture would likely generate greater negative publicity than a failed venture in Brandon or Portage la Prairie.

Expanding into Ontario, Canada's most populous province, seems to be less attractive for Runza. This is partly due to Ontario's location: it is to the east of Nebraska and further away than Manitoba, so the logistical challenges associated with serving this province are greater. However, if the company wanted to expand into Ontario, the city of London is probably a good choice. As mentioned in the case, London is a mid-sized city of approximately 425,000 inhabitants. Further, a significant portion of the city's population (approximately 25 per cent) is made up of students. In addition, the city has a significant number of residents of Germanic descent.<sup>25</sup> Like Winnipeg, it is often used as test market, which means that the city is used to hosting new concepts, something that should work to Runza's advantage.<sup>26</sup>

## WHAT HAPPENED

Runza is currently expanding into states that border Nebraska: Iowa, Colorado, and South Dakota are at the top of the list. The next restaurant opening will be in Yankton, South Dakota in 2023 as a company-owned store. As a rule of thumb, the company prefers to open company-owned restaurants if the location is within 2.5 hours of Lincoln, Nebraska and franchisee-owned stores if the location is further away.

In Colorado, Runza has used the food ordering mobile applications (or apps) DoorDash and Uber Eats to develop its offering. The success there has led to plans to introduce these delivery offerings into the urban areas of Nebraska. Based on advice from Uber Eats and DoorDash, which suggest that a physical presence in the market is a necessary requirement for ghost kitchens to succeed, Runza will develop ghost kitchens in markets where it already has a physical presence.

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<sup>22</sup> Municipality Canada, "Manitoba."

<sup>23</sup> "NHS Profile, Winnipeg, CMA, Manitoba, 2011 [archived content]," Statistics Canada, accessed June 1, 2022, <https://www12.statcan.gc.ca/nhs-enm/2011/dp-pd/prof/details/page.cfm?Lang=E&Geo1=CMA&Code1=602&Data=Count&SearchText=winnipeg&SearchType=Begin&SearchPR=01&A1=Ethnic%20origin&B1=All&Custom=&TABID=1>.

<sup>24</sup> "Why Winnipeg Made a Great Test Market in the 80s," CBC News, January 9, 2020, <https://www.cbc.ca/archives/why-winnipeg-made-a-great-test-market-in-the-80s-1.5399874>.

<sup>25</sup> "Demographics," Townfolio, accessed June 1, 2022, <https://townfolio.co/on/london/demographics>.

<sup>26</sup> Jessica Murphy, "Why Canada Is a Guinea Pig for Global Markets," Polaris, May 13, 2019, <https://www.polarisintelligence.com/why-do-so-many-corporations-use-canada-as-a-test-market/>.