

STRATEGIES

RISING above



Gatti's Pizza CEO Mike Mrlik (left) came on board to transform the company's image.

Gatti's Pizza faces up to obstacles in transforming decades-old brand

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Gatti's Pizza CEO Mike Mrlik often clashed with the company's franchisees during his first year on the job.

And he's still working to win over a group needed to grow the company. While his approach was met with a certain amount of reluctance at first, Mrlik is beginning to make headway when it comes to transforming the brand's image.

Mrlik's goal has been to assuage franchisees' fears by first overhauling and expanding the 38-year-old company's Austin operations. His goal is to return the brand to past

levels of success working hand-in-hand with franchisees.

Before private equity firm Blue Sage Capital bought the Austin-based pizza chain, then known as Mr. Gatti's, a number of CEOs had joined and left the business in just a few years.

The firm hired New World Restaurant Group Chief Operating Officer Mrlik to run the company in 2005, and invested \$5 million for his team to grow the brand.

Gatti's foundation of franchisees, who own 70 percent of its delivery locations, buffets and big-box entertainment centers, were suspicious of Mrlik.

LESSONS LEARNED

GOOD communication between franchisees and the corporate office is essential.

PROVE that changes work at the corporate office before taking ideas to franchisees.

DON'T be afraid to shut down locations that reflect poorly on the overall brand.

SEE GATTI'S, PAGE 22

GATTI'S: New company management retools its attitude toward franchisees

FROM PAGE 20

"There were some swearing matches," he says. "I said, 'Calm down. This is what we've got to do.'"

In the late 1980s, about 375 Mr. Gatti's locations served pizza across the country. Today, 150 Gatti's locations operate in nine states and bring in about \$150 million in annual revenue.

The company's previous executives did not support franchisees, says Central Texas franchisee George Kash, whose parents opened the first Mr. Gatti's franchise in 1972.

"If you called Mr. Gatti's three or four years ago and inquired about a franchise, you may or may not have gotten a call back," Kash says. "If I was a betting man, I would say you wouldn't get a callback. That's because we had nothing to offer you. There were no plans, there was no support, there was nothing."

In 2005, Mrlik spent 60 days visiting franchise stores to see where the brand stood.

"The interesting thing was, and is today, what kept this brand together was the quality of the food and the product," he says. "One of the reasons I came on board is, next to none, it held this brand together."

Kash says that Mrlik's predecessors let the company's food stray from its original recipes and ingredients. So when Mrlik proposed a new type of spaghetti sauce, a simple fix, as one of his first moves as CEO, the franchise community began to warm up to him.

"That was huge," says Vice President of Marketing Ed Cohen. "When we told them about the spaghetti, we had so much credibility."

Mrlik's team proposed a broader vision in 2006 that included changing the company name from Mr. Gatti's to Gatti's Pizza, whittling its five different brands down to just Gatti's Pizza locations and Gattitown entertainment centers, and giving the dark, cozy restaurants a more contemporary design.

The company also changed its decades-old slogan from "Best Pizza in Town" to "Getting Together Over Gatti's" to reflect a new community-centric approach, with stores featuring local references and reaching out to local groups to provide a more hometown feel.

The company has started to make the changes to its Austin stores, and has seen sales increases from 8 percent to 25 percent.

The new 20,000-square-foot Gattitown in the Southpark Meadows development features bright colors, big projection screens

GATTI'S PIZZA

WHAT IT DOES: Owns and franchises pizza restaurants

LOCATIONS: About 150 in nine states

2006 REVENUE: \$150 million

WEB: www.mrgattis.com

and a large painted mural depicting musicians who played nearby when Southpark Meadows was an outdoor concert venue.

Franchisees in Tennessee have provided another boost to the new Gatti's concept by opening four of the rebranded stores. The partnership, which features a former Gatti's executive, plans to open two more by April.

"We've demonstrated over the last 18 months that once you fix Austin, you get a sales lift, you get growth here in Austin," Mrlik says. "We can take that back out to the field with our franchise partners and show them the same thing."

The company faces challenges from its franchisees and from a crowded pizza market. The speed of the change depends on the terms of franchise agreements, some of which are 10-year deals.

The company must partner with franchisees to plan an overhaul that will cost between \$60,000 and \$125,000 per store. Mrlik says the company has had to shut down some franchises outside Austin for the betterment of the brand.

Matthew Mabel, president of Dallas-based hospitality consulting firm Surrender Inc., says Gatti's success will be a function of its franchisees' success. The growth strategy will be more difficult outside Texas, he says.

"I think it's going to be a territory-by-territory situation because they don't have enough critical mass to play the national marketing game," Mabel says. "They're kind of in between a small player and a big player. They have attracted some talented people since the buyout. I'm sure they worked hard on their strategy. It's not going to be easy."

Mrlik says the model could hold 350 stores. He plans to open 10 to 12 new locations in Austin over the next five years. More than 50 stores are in the pipeline.

He says he doesn't want to open stores for the sake of opening them. The company wants to help franchisees pick the right sites and grow the brand with them.

"I can be successful, and they may not be, but it doesn't do a bit of damn good for those guys if I'm the only one successful," Mrlik says. "They have to be just as successful as we are."