# Popeye's Recipe for a Turnaround! A Case Study

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## Introduction

Popeye's restaurant concept started in the year 1972 when Alvin C. Copeland, Sr. opened "Chicken on the Run" restaurant in the New Orleans suburb of Arabi, serving traditional, Southern fried chicken. After several months of lackluster performance, he reopened the restaurant as "Popeye's" (named after Popeye Doyle of the "French Connection"). By the year1985, it became the number three quick service chain based on the number of units. In 1992, America's Favorite Chicken Company (now AFC Enterprises, Inc.) purchased both Popeye's and Church's Chicken restaurants. AFC chairman and chief executive, Frank Belatti projected continued system sales growth of 10 to12 percent, long-term cash flow growth of 15 to 20 percent surpassing AFC's long-term earnings target growth rate of 25 percent (Papiernik, 2000). Moving along the momentum of 167 new unit openings, AFC Enterprises, Inc. reported net income of 202% for the first six months of fiscal year 2000 to $10.8 million from $3.6 million during the same period in 1999.

From the start Popeye's differentiated from the rest of the quick-service restaurants with a Cajun menu and bold New Orleans styling. The marketing strategy was embodied in the promise "We Do Good Bayou." In other words the concept projected a 'Heritage Image' with a dramatic exterior and interior makeover of the restaurant. Year 2001 was a challenging year for all restaurant franchises and all key players in the quick-service chicken segment were trying to remain aloft by pursuing programs such as upgrading their menu offerings and maintaining their value positioning. AFC Enterprises' profits in 2001 were up 34%, and its stock generated a price gain of 99% in its first year as a publicly traded concern. Popeye's Chicken & Biscuits and Church's Chicken, both added a total of 256 units worldwide. Things were moving along well with more than 100 new products being tested or about to be rolled out and with plans set for the opening of as many as 500 franchised units in 2002. AFC saw plenty of growth opportunities in and beyond its existing markets in 47 states and 33 foreign countries (Peters, 2002). About 200 of Popeye's 1,540 locations were planned to have the new look by the end of 2001, either through reimaging of existing units or building new stores. Plans were to convert all restaurants over the next five to six years (Anonymous, 2001). In addition to exterior or interior looks the changes included food, murals, colors, music and bright new uniforms, all creating an atmosphere for employees and an experience for customers. In the year 2002, Popeye's announced its 30th year of service and Church's 50th birthday. AFC's overall growth strategy included a move to New York's metropolitan area with several worldwide restaurant openings. Following a six-year stint leading Atlanta-based Popeye's Chicken & Biscuits to double-digit growth in unit counts, revenue and average-store sales, quick-service veteran Jon Luther leaves AFC effective January 2003 (Hayes, 2002).

In spite of the soft economy impacting limited-service chains nationwide Popeye's had aggressive expansion plans for 2003 and beyond, as they strive to meet the increasing demand for chicken and tense competition in an increasingly crowded field. Initiatives ranged from launching new looks and enhancing menu lineups to embracing co-branding and bolstering carry-out (Ramseyer, 2002). Chicken has been America's most popular protein since the early 1990s, and restaurants serving burgers and pizza were adding chicken to their menu offerings. AFC Enterprises, Inc. also had plans to counter heavy discounting and price promotion activity by its competitors. It also planned to bring back some of the menu items that were popular in the past as well as adding new products.

During following year due to the intense competition, Popeye's sales started sagging, and there was a need for a different marketing strategy. Popeye's was recommended to downplay its Cajun heritage in ads in an attempt to better resonate with younger diners (Jensen, 2003). Squeezed between a weak U.S. economy and relentless competition, quick-service chicken chains started employing different tactics to (a) differentiate their brand and (b) strengthen the slowing domestic traffic. Other chains such as Boston Market, Chick-fil-A, Church's Chicken, KFC and Popeye's Chicken & Biscuits emerged from a year of generally flat same-store sales with new-product additions, bolder decor packages, improved operational programs and aggressive marketing campaigns designed to reignite customer interest (Frumkin, 2003).

## Downturn

### *Executive level Performance:*

It all started in the year 2003 when the chief marketing officer for Church's Chicken resigned, becoming the latest in a line of executives to exit AFC amid a corporate accounting scandal and several shareholder lawsuits. AFC stock plunged 20% in a very heavy trading period

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in March 2003. AFC, the franchisor and operator of Popeye's Chicken & Biscuits and Church's Chicken, posted a third quarter net loss of $1.9 million, reflecting a $5.4 million loss due to the discontinued operations from its recent sale of the Cinnabon chain. Also in 2004, Dick Holbrook,who was an architect of AFC Enterprises' advancing plan resigned as AFC's president and chief operating officer.

Also, in the year 2004 a key allegation was brought by a franchisee, Royal Capital, a suit claiming that AFC engaged in a widespread pattern of financial fraud. Another blow came when AFC's insurer canceled the company's liability policy covering directors and officers. The cancellation of the policy made it hard to attract high level executives. AFC looking to deflect securities-related litigation filed a lawsuit of its own against former accounting firm Arthur Andersen LLP for alleged auditing malpractice (Spielberg, 2004a). In 2004 Church's Chicken was sold and AFC promoted Kenneth Keymer, to be the company's new chief executive, effective Sept. 1, 2005. He succeeded AFC co-founder Frank Belatti, who remained chairman of the long-embattled company. Those changes, with Popeye's as AFC's sole brand, came amid a spate of shareholder litigation against the company and its officers, including Belatti, over corporate finances. The largest two of those lawsuits were settled at a cost of $15 million to KFC (Hayes, 2005).

### Brand Image:

The separated sibling, Church's Chicken launched an ad and public-relations campaign designed to grab market share for the spicy-chicken category from Popeye's Chicken & Biscuits (Cebrzynski, 2006). In 2006, Mel Hope was promoted as chief financial officer, succeeding Frederick Beilstein. With the tightening of the economy, consumers were facing challenges in their discretionary spending. AFC Enterprises, Inc. appointed John M. Cranor and Cheryl A. Bachelder to its board. Popeye's system wide domestic same-store sales for the latest quarter of 2007, dipped 2.1 percent due to lower traffic resulting from continued pressures from value and boneless-chicken offerings by competitors.

### Marketing Strategy:

Popeye's had to revamp its marketing strategy for the fifth time in as many years after a disappointing fourth quarter in 2007. The chicken chain was under fierce competition from not only strong segment competitor, KFC, but also McDonald's, whose chicken sales were gaining over beef (Hein, 2007). AFC announced the resignation of Kenneth Keymer as of March 30, 2007 after serving as the company's chief executive officer and president. AFC also promoted Chief Development Officer James Lyons to chief operating officer, a newly created position. Lyons joined the Popeyes management team in July 2004. AFC board member John M. Cranor, a former leader of Long John Silver's and KFC, succeeded Belatti in 2007. In 2007, Cheryl A. Bachelder was named as chief executive of AFC Enterprises Inc. and president of its 1,878-unit Popeye's Chicken & Biscuits chain. She replaced interim chief executive Frederick B. Beilstein.

AFC drew heavy fire from Wall Street when it acknowledged that a member of the company's audit committee had sold more than $18.2 million in stock in 2002, before the price plummeted. The bookkeeping problems led AFC Enterprises to announce that it would restate earnings for 2001 and most of 2002 (Anonymous, 2003). AFC Enterprises Inc., having filed with securities regulators the last of its long-overdue annual and quarterly financial disclosures and earnings statements, turned its strategic focus to redefining and strengthening its business through divestiture of 1,528-unit Church's Chicken (Spielberg, 2004b). The choice was to either sell Church's chain or Popeye's. The move came one day after AFC said it hired a new president to lead sister brand Popeye's Chicken & Biscuits. In April, 2004 AFC said it was considering divesting its Cinnabon chain. Frank Belatti, AFC's chairman and chief executive, said in a interview, "When we looked at our chicken brands, we [thought] ... we had probably reached a point where it was no longer really advantageous or wise for us to continue to own competitive brands," Church's and 1,805-unit Popeyes were beginning to encroach upon each other, and it was getting harder to adjudicate issues between the two brands, Belatti explained (Spielberg, 2004b). Church's was finally chosen for divestment in order to put a brand into the marketplace that had a peak value as well as having upbeat performance. In addition, Church's included far more real estate than Popeye's did - a desirable asset for financing. At that time, there were 281 AFC-owned Church's chicken outlets and 955 franchised units compared to 80 AFC-owned Popeyes branches and 1,372 franchised units.

In addition to sagging sales, increasing commodity costs, record high gas prices, and costs for construction hindered growth plans of many restaurant franchises. In another high-level executive change at AFC Enterprises Inc., James W Lyons resigned as chief operating officer to pursue another business opportunity. His resignation closely followed the retirement of AFC founder Frank J. Belatti and the appointment of Cheryl A. Bachelder (former KFC president) as chief executive and president of Popeye's. Belatti was succeeded as chairman by former KFC chief John Cranor. In 2008, Popeye's named KFC veteran Ralph Bower as chief operations officer and appointed Richard Lynch as chief marketing officer.

### Popeye's Dilemma

Popeye's, one of the long standing chicken chains was facing several challenges at this juncture. These included (a) a number of executive changes in a short period of time; (b) image issues resulting from legal suits against the company; (c) impact of the cancellation of insurance policy; (d) intense competition and (e) the decrease in domestic consumer traffic. The dilemma actually rankled the very core of the restaurant concept i.e., whether to maintain the Louisiana heritage or not. Giving up that component would eliminate the competitive advantage of Popeye's and may jeopardize the authenticity of the brand name.

### What Went Wrong? Questions?

There are several questions that need to be answered is as to what went wrong with a chain that had a special appeal and was doing so well in spite of the problems faced in the earlier stages. The facts to consider are that (a) the franchise concept was popular and had very limited competition; although many chicken chains were in business at that time, (b) Popeye's was an early entry to the fast food chicken restaurant business, prior to burger/pizza chains adding chicken, (c) Popeye's had the leadership of well experienced executives and innovators; (d) Popeye's was gaining popularity domestically and internationally; and (e) the Popeye's brand was well accepted and had shown all signs of popularity. The questions for consideration include (a) was it a mistake to develop different menu items and dilute the demand for the popular bone-in chicken item; (b) was it a mistake to spin off Church's Chicken and allow it to become a competitor; (c) was it a mistake to let go some of the well experienced executives; (d) did the company spread itself so thin as to make it difficult to manage; (e) was there a tough competition between other quick service chains; (f) was franchisees and franchise relationship a problem and (g) was the marketing effort lacking or ineffective in reaching the target population. Answers to all these questions were vital for the survival of this former popular chain.

### Issues, Challenges, and Theoretical Underpinings

Since the issues are very complex and interrelated it is better to isolate each and evaluate them on the basis of theoretical concepts starting with problem solving, concept impact, brand equity, and overall marketing strategies. The first step in any problem solving is problem recognition. In restaurant business, particularly franchise operations, the concept is the core of any brand. In other words menu becomes the core of the concept in any restaurant and is the basis of the brand. The theoretical implications that need to be considered in case analyses are as follows:

Menu is the core of the concept in restaurant franchising (Khan, 1999).

Brand consistency is critical in maintaining the strength and favorability of brand associations (Keller, 2008).

A concept can be affected by business environmental changes requiring tactical shifts and changes as needed (Keller, 2008). External factors include both external and internal factors that may impact the business concept.

Being consistent does not mean that marketers should avoid making any changes in the marketing program. Despite the tactical changes, certain key elements of the marketing program should always be retained and brand meaning should remain consistent over time (Keller, 2008).

Marketing strategy should consider the mission, marketing, financial objectives and needs that the market offering is intended to satisfy as well as its competitive positioning (Kotler & Keller, 2012).

Brand image which is based on the perceptions and beliefs held by Popeye's consumers, as reflected in the associations held in consumer memory, gets affected when changes take place in various components and structure of an organization.

### Menu

By the year 2001 Popeye's menu included several Louisiana legends including a combination of crawfish, catfish, popcorn shrimp, and butterfly shrimp. However there was a significant decline in demand for bone-in-chicken starting in 2004. According to Kenneth Keymer, Popeye's president, "we are obviously largely a bone-in-chicken company, and if transactions on an industry basis starts to fall off, that means we have to find other ways to build transactions to continue to build our business. That is probably the major, major cause of our transaction softness" (Spielberg, 2004a). Changes planned in the menu included adding Super Popcorn Chicken, Crawfish, and Turkey. Efforts were also made to include "naked" bone-in chicken and strips, which were chicken products, not battered or breaded thereby reducing the carbohydrate and caloric contents. It should be noted that the larger the menu item, more challenges it creates for the operation and service. Therefore menu enhancements became too difficult to handle from the operations point of view.

In 2008, the rebranded Popeye's Louisiana Kitchen chain rolled out Louisiana Travelers Nuggets and Tenders. Popeye's introduced the first value-priced Big Deals products in late August, when it repositioned the brand as "Louisiana Fast," focusing on "slow-cooked food for a fast-paced life." The Big Deals products were designed for consumers who want a meal while they are on the go. In 2009, Popeye's introduced wings to its menu with a photo contest for customers. The marinated wings became available in three sizes: 5, 10 and 20 pieces with an option of a ranch dipping sauce.

### Executive Level Personnel Changes

Popeye's restaurant concept started in the year 1972 when Alvin C. Copeland, Sr. opened "Chicken on the Run" restaurant in the New Orleans.

Following a six-year stint leading Atlanta-based Popeye's Chicken & Biscuits to double-digit growth in unit counts, revenue and average-store sales, quick-service veteran Jon Luther leaves effective January 2003 (Hayes, 2002).

In 2003, Ann Stone, Chief Marketing officer for Church's Chicken resigned, becoming the latest in line of executives to exit amid a corporate accounting scandal and a barrage of shareholder lawsuits. (Spielberg, 2004a). In 2004, AFC Enterprises Inc. hired Frederick B. Beilstein as chief financial officer.

In 2004, Dick Holbrook,who was an architect of AFC Enterprises' advancing plan to divest all but its Popeye's Chicken brand, resigned as AFC's president and chief operating officer, in essence eliminating the role of company's number two executive. That left Holbrook, who once had four AFC divisional presidents and more than 4,000 restaurants under his direct or indirect operating hand, with a much-lightened workload (Hayes, 2004).

In 2004 Church's Chicken was sold and AFC Enterprises Inc. promoted Kenneth Keymer, to be the company's new chief executive, effective Sept. 1, 2005. He succeeded AFC co-founder Frank Belatti, who remained chairman of the long-embattled company.

In 2006, Mel Hope was promoted as chief financial officer, succeeding Frederick Beilstein. AFC Enterprises, Inc. appointed John M. Cranor and Cheryl A. Bachelder to its board.

AFC announced the resignation of Kenneth Keymer as of March 30, 2007 after serving as the company's chief executive officer and president.

AFC promoted Chief Development Officer James Lyons to chief operating officer, a newly created position. Lyons joined the Popeye's management team in July 2004.

AFC board member John M. Cranor, a former leader of Long John Silver's and KFC, succeeded Belatti in 2007.

In another high-level executive change at AFC Enterprises Inc., James W Lyons resigned as chief operating officer in 2007.

James Lyons resignation closely followed the retirement of AFC founder Frank J. Belatti and the appointment of former KFC president Cheryl A. Bachelder as chief executive and president of Popeye's. Belatti was succeeded as chairman by former KFC chief John Cranor.

In 2008, Popeye's named KFC veteran Ralph Bower chief operations officer and appointed Richard Lynch chief marketing officer.

### *Franchising and Franchisor/Franchiseee Relationship*

Franchisees are entrepreneurs who have put everything on the line by investing in Popeye's' brand. The 'Heritage Image' of Popeye's' was one of the major attractions for franchisees. A dramatic exterior and interior makeover of the restaurants in 2001 was greeted by reluctance by franchisees due to cost involved in building or renovation. AFC Enterprises started testing less costly versions of its Popeye's re-imaging effort in 2002 in response to franchisees' continued resistance to the $120,000 price tag. It should be noted that from the beginning most of the Popeye's franchises are located in low income neighborhoods.

AFC replaced its 50-year tagline, "Big Pieces Little Prices," with "Full Flavor, Full Pockets, Full Life." Franchisees criticized that effort, which included ads showing cartoon characters without heads. Amid plans to counteract the trend away from Popeye's core menu item, the company reduced the costs for building new restaurant units and remodeling existing restaurants, in an effort to spur franchisees to expand and increase sales in their stores (Spielberg, 2004). A 12 to 15% reduction in the cost of new store projects and 25 to 35% cuts in costs of reimaging were planned as incentive to franchisees to spur restaurant growth. In short, franchisees were very much disgruntled with all of the changes taking place.

### *Brand Name and Brand Image*

In an interview, Dick Lynch, AFC's chief marketing officer, discussed the Popeye's chain and said one of the things that most attracted him to come to Popeye's was the brand. He emphasized that the brand has a spiritual home and that there is realness, an authenticity to the brand. It is true that the brand was born with a Louisiana heritage focusing on the culinary specialties in a low income neighborhood. Thus the Louisiana heritage is the brand anchor. It was clearly emphasized that Popeye's is not a theme restaurant, but heritage is its real point of difference. When asked where the opportunities to build the brand in the future are, Lynch said clearly the majority of the business is good old bone-in fried chicken, but Popeye's has an opportunity to go beyond that. Popeye's had menu gaps that needed to be filled in, gaps in comparison to other QSRs particular in the chicken serving segment. The demographic profile comprised of 40% African American, 40% Caucasian and about 20% all others, primarily Hispanic.

### *Cross Roads and Strategic Decision Points*

Considering all the executive changes, brand image, franchisee's concern, and menu changes, Popeye's restaurant company reached a very crucial point which practically challenged its very existence. There was an urgent need to address all of the abovementioned issues and challenges as well as devise strategies that will drastically change the direction. AFC promoted Ralph Bower to the newly created position of president of the U.S. division of its Popeye's Louisiana Kitchen subsidiary. He assumed some responsibilities of AFC chief executive Cheryl Bachelder letting her focus on long-term strategic planning, building leadership capability throughout the company, instilling corporate culture and representing the interests of Popeye's' franchisees and investors (Landingham, 2012). Shortly after her tenure began in 2007, the whole fast-food industry slid into a slump. First the recession, then continuing economic weakness resulted in fewer restaurant visits and declining sales for many chains. Rising commodities and labor costs had also eaten into restaurants' profitability. At Popeye's, where several years of management turnover preceded Ms. Bachelder's arrival, there were tense relations with franchisees in addition to weak sales. It was at this point that Cheryl Bachelder stepped in with very bold initiatives which became landmarks in the history of strategic decision making.

## Conclusion

This case study is unique since it outlines issues, problems, and dilemmas providing enough information to kick start a fruitful discussion. Since the new CEO of Popeye's, Cheryl Bachelder has turned around the company with innovative ideas and solutions; that are described in the teaching notes section. This will help in teaching this case and verifying or supplementing the answers to the questions by the real-life solutions that are in practice. The first section of this case study outlines the issues, dilemma, and problem in a very complex situation which involved concept, brand name, personnel changes, and marketing decision-making. The second section with teaching notes is designed to compare the discussion points with the actions taken by the CEO. This way points derived from discussion can be compared by the actions taken, thereby providing a good learning experience. Therefore the most useful component of this case study is that the eventual solutions to Popeye's problems are creatively 'hidden' until the teaching notes. This will help the teacher/facilitator to present a problematic business, allow students to brainstorm solutions on their own, then compare with real decisions the company made to solve the corporate challenges.

## Discussion Questions

- If you are assigned as the CEO of this company what are some of the basic decisions you will take based on theoretical underpinnings?
- What can be done to rebuild the brand image, considering all adverse changes that have taken place during the past several years?
- What marketing strategy and campaigns can best be taken to build the brand image?
- Do you think partnering with other corporations will help build brand image and bring more traffic?
- What type of long-term strategy will you recommend as the CEO of this corporation?
- Describe an innovative approach you will take to jump start a marketing campaign for this brand?
- What new slogan will you use to show the attributes of the brand?
- What kind of menu modification will help business by appealing to new market segment?
- Do you think the old logo needed to be replaced? If so, what would be an appropriate logo design?
- Was it a poor idea to move away from bone-in chicken, which made this brand popular?
- What steps can be taken for market positioning of this concept in a competitive environment?
- How can franchisor-franchisee relationship be improved building confidence and trust?
- Under the circumstances what marketing and management strategies will be successful?
- Assuming the decisions you have made are successful in making this business profitable what outcome will you expect?
- How would you build trust between franchisees considering all the personnel, menu, brand and operational changes?

***Figure 1***

**Popeye's' Old and New logo**


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