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Fledgling pizza chain eyes larger slice of the pie

By Deborah L. Cohen | CHICAGO | Wed Jun 1, 2011



Jack Butorac, president of Marco's Pizza franchise, is pictured at one of the fledgling chain's 241 locations in this undated handout photo.

(Reuters) - When Jack Butorac spotted a sleepy pizza operation in Toledo, Ohio, he saw the makings of a winner, despite confessing he "knew nothing about pizza."

Nearly a decade later Marco's Pizza is the fastest-growing pizza chain no one has ever heard of. It's attempting to carve a slice of the saturated U.S. pizza market, bucking sluggish franchising trends and quickly adding new restaurants, even during the recession.

"He didn't brand it, he didn't distinguish it, he didn't emphasize the strengths," said Butorac of Italian-born Marco's founder Pasquale Giammarco, who established the business more than 30 years ago. "Pat Giammarco is a pizza guy, he's a real-estate guy. Smart guy, but branding, no."

Giammarco had focused on quality ingredients and consistent operations in growing the business to more than 100 stores. But he didn't think much about image, said Butorac, whose 35-year career has included stints helping the Chi-Chi's and Fuddrucker's chains expand.

Butorac convinced Giammarco to let him form a franchise company to grow the brand. After setting it up in 2004, he recruited industry veterans to run everything from franchise sales to procurement. Butorac, who owns stores in Cleveland and Indianapolis, controls the majority; Giammarco has a smaller stake and owns stores primarily in Toledo, where Marco's is headquartered.

"I knew nothing about pizza," said Butorac, president of Marco's Franchising LLC. So he initially worked as a consultant to Giammarco to get a flavor of Marco's distinguishing characteristics: fresh dough made daily in stores, sauce from an old family recipe and a special blend of three cheeses.

"I was retired when I started this," joked the ebullient Butorac, 62, who commutes from his home in Louisville, Kentucky several times a month. "My wife said, 'You're' driving me crazy, find something to do.'"

Marco's, whose competition includes national rivals Pizza Hut, Domino's and Pappa John's, plus regional chains and mom-and-pops, has heady goals for growth that includes opening as many as 90 stores this year. Its aggressive rollout began in 2008 -tough times for the pizza industry - as rising gas prices were squeezing mainstay delivery sales and steep commodity costs pinched operators' wallets.

PIZZA EQUITY

To skirt monetary challenges facing potential franchisees, Butorac raised \$20 million in private equity funding to assist operators with down payments. He also established a leasing arm to help franchisees upgrade equipment or build entire stores, which typically cost \$250,000 and post average annual sales of more than \$700,000.

About 20 percent of franchisees opted for one of the programs, Butorac said, helping to bring Marco's current store count to 241 units, more than double the start of the franchise. Another 75 or so are in the pipeline.

"It helped us open a lot quicker than it would have if we needed to just come up with more capital," said Kirk Luchman, a 35-year-old franchisee, who along with partners, recently opened a second Marco's in Tallahassee, Florida and plans to open more.

Despite such rapid expansion, Steve West, a St. Louis-based restaurant analyst with Stifel Nicolaus, said Marco's faces headwinds in a \$30 billion industry with little growth, continued high costs for ingredients such as wheat and increasing national awareness over obesity. The industry grew only slightly last year, he said, on the backs of the bigger chains.

"The pizza category is mature," West said. "It becomes very tough for somebody like that to expand in new markets. They have to be able to educate their consumer that they are a better pizza."

That's not stopping Butorac, who contends his chain, distinguished by its slogan "Authentic Italian Pizza," will attract more business from the casual dining sector, where customers are feeling the budgetary pinch. He also hired a seasoned management team, which includes veterans from the likes of Pizza Hut parent Yum! Brands, Little Caesars, Wendy's and Domino's, offering them equity and a share of the royalties.

"If the company does well in development, there's an upside," said Peter Wise, a former Young & Rubicam brand strategist who serves as Marco's VP of marketing. "That's been a factor in how we've been able to grow quickly, even in a recession."

Of course there were pitfalls, such as figuring out how to maintain consistent ingredients across a range of growing markets; the chain, which is predominantly in Midwestern and Southeast states, is likely next pushing into California.

Tight controls are central to Butorac's vision for Marco's place in the pantheon of American eating options.

"A mushroom is a mushroom? No it isn't," insisted Butorac, who established a distribution arm after encountering food consistency problems in some new stores. "The fundamentals as far as the operations go - those were all fundamentals Marco's had before the takeover."