The Dog Catches the Car…

 Should Ivar’s Have Entered Qwest Field?

It was Valentine’s Day 2004 andWalt Pillman was excited and confused. He managed Ivar’s operations in sports facilities, and after years of discussions, the Seahawks and Aramark had finally agreed to allow Ivar’s into Qwest Field. Like a dog who chased cars, Walt had finally caught a car and wasn’t sure how to proceed.

WHO ARE THE PLAYERS IN THIS CASE?

MAJOR PLAYERS: Seattle Baseball and Football Sports Teams

The Seattle Mariners baseball club (American League West, MLB) and Seattle Seahawks football club (West Division of the National Football Conference, NFL) have a long history in Seattle, with the Mariners beginning in 1977 (after returning from a brief tour of duty in Milwaukee as the “Brewers”) and the Seahawks football club beginning in 1976, founded by John Nordstrom, an owner of the Seattle department store founded by his grandfather.

NEW SPORTS ARENAS IN SEATTLE: Both teams played in the downtown Seattle sports arena, the Kingdome, the American League’s first domed stadium from inception until the Seahawks last game in 1999, when the Kingdome was demolished and the Mariners moved to their new sports arena, Safeco Field, a combined indoor/outdoor baseball stadium, complete with retractable roof, playing their inaugural game on July 15, 1999 against the San Diego Padres. From 1999 to 2002 the Seahawks moved across town to the University of Washington’s Husky Stadium, until their new downtown ballpark, Qwest Field was completed. Opening Night was August 10, 2002 with a preseason game against the Indianapolis Colts (AFC).

STAR PLAYER: Ivar’s

Ivar’s Restaurants has been serving restaurant and quick-serve seafood for over 65 years. Starting on Pier 3 on the Seattle Waterfront in 1938 as a side business to an aquarium, demand for its popular clam chowder soon warranted more capacity and the aquarium was shut down in favor of selling white and red chowders, and quick-serve fish ‘n’ chips (cod, halibut, salmon, clams, scallops, baby prawns, or oysters). Founder Ivar Haglund was a local celebrity who wrote and sang numerous ballads (“Acres of Clams”) on the local radio and (later) tv stations. After his death, the iconic Dancing Clams began to appear, who were tap-dancing mascots in clam suits. There has been a strong, local Seattle connection to Ivar’s customers throughout the 65 years. Currently Ivar’s maintains over 25 Quick Serve Seafood Bars, three restaurants, and, since 1990, 13 Kidd Valley Burger locations in the Seattle area.

Ivar’s 2004 sales were reported at around $50 million, with its Ivar’s seafood bars averaging $700,000 in annual sales and its Kidd Valley locations $640,000. Its flagship restaurant Ivar’s Acres of Clams and adjoining seafood bar earned close to $10 million in sales. The average check at its restaurants for lunch was $15, and $24 at dinner. The per-person average ticket at the Ivar’s seafood bars and Kidd Valley was $7. Ivar’s has had five consecutive years of profit for the year ending 2004.

MINOR PLAYER, Master Concessionaire: Aramark Corporation is one of the largest publicly held food and support service companies in the United States, as well as being a major provider internationally. Its service segments include: Food and Support Services (e.g., food—restaurants, catering, convenience stores, vending machines and coffee service, facility maintenance, housekeeping), Uniform and Career Apparel (rental and sales). Aramark’s customers include: businesses, education, healthcare, sports, entertainment, and recreation facilities. At Qwest Field, Aramark was the Master Concessionaire responsible for the concessions. Aramark’s contracts for sports, entertainment, and recreational services are from five to fifteen years in duration. At Safeco Field, Volume Services was the Master Concessionaire.

what about merchandise?

**The Sports Concession Business**

 A handful of national and international companies control the food service business in stadiums. They typically sign a deal with a team for five to seven years during which they serve as the exclusive or master concessionaire in a stadium. Unlike rent in a typical restaurant location, the teams charge the concessionaires “rent” of 40-60 percent of sales, and often the concessionaires contribute a chunk of capital ($2-5 million is not uncommon) to the team, and often install their own equipment. The concessionaires like to keep their product cost (food plus packaging) below 20 percent of retail prices, compared with 25-33 percent in a typical restaurant. Because of the target product cost and captive audience, prices in stadiums tend to be higher than prices on the street. The concessionaires like to develop their own products and menus, rather than contracting with outside restaurants—there isn’t enough margin to share among many parties.

 Some concessionaires have arranged deals with teams wherein the team provides all capital and retains all revenues, and pays the concessionaire a management fee tied to sales or profit targets.

 Concessionaires are often handicapped by architects who focus their design efforts on sky boxes or sight lines, and not concession stands. Stands are often designed without production of food or speed of service in mind.

DECISION MAKER AND PLANNER: Walt Pillman, director of Operations, Ivar’s Sports and Entertainment

**The Background:**

Ivar’s Enters the Sports Concession Business

The Seattle Seahawks: In 1998, when the Seahawks moved from the Kingdome to Husky Stadium, they asked Ivar’s to consider serving its world famous white clam chowder to Husky and Seahawks fans to cold, wet football fans. Ivar’s pulled its Clam wagon, a former Airstream travel trailer, into the west apron of Husky Stadium and began to sell its chowder. Ivar’s was in the sports concessions business!

Safeco Field: About the same time, with Safeco Field under construction, the Mariners (baseball) asked Ivar’s to consider opening a Fish Bar in the new stadium. The Mariners had seen the huge crowds that Ivar’s served at its walk-up Fish Bar on Pier 54 and thought that such a fish bar would work well in the ballpark. Ivar’s agreed with the master concessionaire (Volume Services) at Safeco and opened two booths in the stadium. On 15 July 1999, as the gates were opening and the fans entered the stadium for the first professional game, Safeco’s cash register system failed throughout the stadium. It was an omen for Ivar’s operations in stadiums.

 However, by the end of the first season in the new park, Ivar’s two booths were the highest and second highest selling of 68 booths in the stadium, and the Mariners asked Ivar’s to add its Kidd Valley hamburgers to the stadium. At the end of the second season, Ivar’s and Kidd Valley booths were 1-2-3 and 4th in volume in the stadium.

Baseball Concessions – Ivar’s Experience and Rules of thumb

 With four years of experience with the Mariners, Ivar’s had learned one segment of the sports concession business. It determined “Rules of Thumb” before opening at Safeco Field, and developed its budgets based on those rules. For instance, a typical cash register in a typical stadium will sell $500 of food in a typical game, and will serve one customer every minute. Ivar’s targets were to serve one customer every 30 seconds, and sell $1,000 for each register each game. By the end of the first season, the company learned:

* 80 percent of its total sales were completed by the end of the first inning
* sales for night games were much better than sales of day games
* the first game in a home stand often had the highest sales, since fans had not eaten ballpark food for the length of the team’s road trip
* anything and everything can break, but will only do so at a critical time

(the lesson of the broken cash registers on 15 July 1999)

 In 1999, when Ivar’s opened at Safeco Field, 40 percent of residents in Puget Sound had lived in the area fewer than three years—they didn’t know the stories about Ivar’s, nor had they seen Ivar’s Dancing Clams. Ivar’s saw stadiums were seen as a means to market its brands. Ivar’s goal in operating in stadiums was NOT to make money, but rather to introduce potential customers to its food so they would seek Ivar’s or Kidd Valley locations near their homes.

To meet this goal, the company had to produce fresh food (as good as its restaurants), quickly (as quick as its Pier 54 Fish Bar on the Seattle waterfront), with its usual friendly service. Making a profit was less important than making good experiences for fans.

 Ivar’s success at Safeco was clear—it operated the six highest volume stands, its Grounder Garlic Fries were the most popular food in the park with one of every 10 fans eating them each game, and the company’s market research said those fans found their way to the company’s stores. It beat its goals and sold an average of $2,200 per register per game, and served one customer every 22 seconds, on average.

Some Data—Safeco Field

Seating capacity 47,116

Concession booths 68 (food stands, 26 kiosks, one restaurant and one pub)

Qwest Field (Football) and Ivar’s Next Step

In 2001, the Seahawks and Aramark asked Ivar’s to consider opening booths in Qwest Field, then under construction. The companies were not able to come to an agreement, and the Seahawks opened without Ivar’s. However, after the first three seasons, the Seahawks’ new president, Tod Leiweke, was disappointed in the poor comments from customers about food quality and speed of service, and the low sales of food and beverage per fan in the stadium, and again asked Ivar’s to consider opening booths at Qwest Field. Ivar’s agreed, so, as of Valentine’s Day, 2004, Walt Pillman of Ivar’s had five months to launch Ivar’s in Qwest Field. Five months to plan booths, menus, pricing, hire 200 employees, and get ready for the first event.

But football was an entirely different game than baseball, and Ivar’s knew little about how to operate in a football stadium. As Walt met with his management team, he was especially concerned about:

* which of 47 concession booths to select for Ivar’s and Kidd Valley
* what equipment was in place and how the kitchens were laid out in the booths
* the pattern of sales at a football game compared with a baseball game
* what mix of product that would be sold (beer, beverages, entrees?)
* the effect of winter weather on sales compared to baseball weather

Some Data—Qwest Field

Seating capacity 66,000 expandable to 72,000 for Super Bowl

Concession booths 47

# Booths with Exhaust Hoods 6 Allows cooking in the booth

Fryers per booth 3

Sales per booth average $12,000

Cash registers per booth Range from 4 to 12 in booths

Capacity per fryer (# / hour) 78

Weight of one garlic fries order 12 ounces

Chowder wells per booth 0

Hamburger grilles 3 six foot grill

Average Sales Per Fan NFL $14 Food and beverage, without suites

Average Beverage Sale NFL 65% Beer, soda, coffee, water, hot chocolate

Beer Cutoff Day games Start of 3rd quarter

Beer Cutoff Night games 2nd Half Kick off

Getting Ready for Qwest Field

So as Walt Pillman sat down with his Valentine’s chocolate box, he realized he would have to work quickly. If he needed new equipment there would be a lead time to order it, and he would also need permits from the city to install it. The first event was scheduled for August, so there was no time to waste. And with pitchers and catchers reporting to Arizona the next morning, Walt knew the baseball season was only six weeks away and once baseball started, he would have no time to work on Qwest Field.

Which Locations?

 The Seahawks had asked Ivar’s to select as many locations as it thought it could manage with the request that one Ivar’s and one Kidd Valley be located on the Club level. Fans who sat on the Club level paid between $100 and $125 per ticket, and they were upset with the quality of the food.

 Sales Patterns

 Walt knew that baseball fans ate BEFORE the game, and by the time Ichiro batted, most of Ivar’s sales for the night were completed. What would happen with sales at football games at Qwest Field?

How much food and beverage should Walt plan to sell?

What items should be on the menus?

What would be the mix of sales between food and beverage?

When would the booths be busiest?

What sales targets should Walt establish for his managers?

How much and what kind of labor should he plan for in the booths?

Compared to his planned sales, how much inventory should Walt order per game?

Equipment Concerns

 When the company installed Kidd Valley at Safeco, the master concessionaire was upset with Kidd Valley’s selection of the highest capacity hamburger broiler in the world for its booths and accused Ivar’s of “building a cathedral for Easter,” implying that there was too much capacity. The concessionaire was selling an average of 300 hamburgers A GAME from the booth Kidd Valley was taking over and Kidd Valley wanted to buy a broiler that could produce 800 burgers in AN HOUR! “You’ll never sell that many burgers,” the manager said. Walt didn’t want to have that conversation with the President of the Seahawks, but he didn’t want to run out of burgers or fries during a game, either. What should Walt do about equipment in the stadium?

DATA

Walt\* prepared a projection of sales and costs for the next five years, based on Ivar’s experience at Safeco field. The economy was never certain, so he made it realistic, optimistic and pessimistic. (See Attached schedule)

*\* Note: Some of the attached data was provided by Ivar’s. Other data was created by Judith Paquette for use in this case, based on her estimates.*

**YOUR ASSIGNMENT: The CASE Problem**

1. Prepare analyses of the possible scenarios:
	1. Prepare a Net Present Value Analysis (NPV) for the three different scenarios (optimistic, pessimistic, and realistic). Show the Depreciation Tax Shield(s) as a separate line item.
	2. A Payback Period Analysis for the realistic scenario.
2. Perform a cost/benefit analysis of whether Ivar’s should have agreed to invest in QWEST field. Consider its capital investment, along with any other costs and benefits (the Qwest Field segment income). Present your findings analytically.
3. Clearly state your decision and conclusion from your analysis. See writing tips below.
4. Discuss the intangible costs and benefits (discuss both go/no go decisions).
5. Review the concept of the Balanced Scorecard and discuss two relevant performance measures that relate to this case. Ivar’s customers are diverse, and for some, English is not their first language. Address this in your discussion. Be very specific and relate the performance measures to the information in this case.

🡺Submit your paper through Canvas. One per group.

Other references:

Maps/ info about Concessions:

* <http://www.seahawks.com/gameday/stadium-guide/concessions.html>
* <http://www.centurylinkfield.com/concessions-guide/>

Concessions: Quite the moneymaker for stadiums

* [http://www.centralpennbusiness.com/article/20121107/SPORTS/121109844/-1/events\_calendar/Concessions:-Quite-the-moneymaker-for-stadiums&template=sports](http://www.centralpennbusiness.com/article/20121107/SPORTS/121109844/-1/events_calendar/Concessions%3A-Quite-the-moneymaker-for-stadiums%26template%3Dsports)

## [Concessions Contracts Capitalizing on Consumers' Brand Loyalty](http://www.athleticbusiness.com/marketing/concessions-contracts-capitalizing-on-consumers-brand-loyalty.html)

* http://www.athleticbusiness.com/Marketing/concessions-contracts-capitalizing-on-consumers-brand-loyalty.html

Balanced Scorecard in Sports

* <http://ageconsearch.umn.edu/bitstream/104661/2/3_Becsky_The%20Application_Apstract.pdf>
* <http://digitalcommons.uconn.edu/cgi/viewcontent.cgi?article=1053&context=srhonors_theses&sei-redir=1&referer=http%3A%2F%2Fwww.google.com%2Furl%3Fsa%3Dt%26rct%3Dj%26q%3Dbalanced%2520scorecard%2520sports%2520team%26source%3Dweb%26cd%3D5%26sqi%3D2%26ved%3D0CEgQFjAE%26url%3Dhttp%253A%252F%252Fdigitalcommons.uconn.edu%252Fcgi%252Fviewcontent.cgi%253Farticle%253D1053%2526context%253Dsrhonors_theses%26ei%3Duj6IUbKKEuSRiQLH0ICQAg%26usg%3DAFQjCNG_bSmveaW7aj47q99IHCoJW6fC5A#search=%22balanced%20scorecard%20sports%20team%22>

by

Bob Donegan, Ivar’s Inc., President and Director

Judith Paquette, Bellevue College, Faculty

TIPS ON WRITING: Write clearly, with emphasis on C-O-E.

Content: take a position; provide evidence to support your conclusion, e.g., “Sales have improved dramatically over the three years-- 10% growth in 2001 compared to 2000 and 15% growth in 2002 compared to 2001.”

Organization: Organize your thoughts clearly; don’t ramble from topic to topic. For longer paragraphs, make a short outline to assure that you say what you want to say.

Editing: Avoid typos and misspellings, avoid run on sentences, awkward sentences. Proof read your team members’ writing and give them feedback on this. If you each write different sections, make sure they are written in a consistent style.

Note: When writing about the company, refer to it as an “IT”, not a “THEY.” Company is singular, not plural.

|  |  |
| --- | --- |
| **Rubric** |  |
| NPV/Payback | 10 |
| Decision/Discussion  | 10 |
| Intangible Costs/Benefits | 5 |
| Balanced Scorecard  | 10 |
| www.Turnitin.com  | 5 |
| **TOTAL** | 40 |
|  |  |
| Reflections - submit separately | 5 |

**Bibliography**

Liddle, Alan J., “Ivar’s celebrates the old-fashioned way: tallying sales and higher growth,” New York: *Nations Restaurant News*, (April 11, 2005): 4, 121. Print. [*http://connection.ebscohost.com/c/articles/16761795/ivars-celebrates-age-old-fashioned-way-tallying-higher-sales-growth*](http://connection.ebscohost.com/c/articles/16761795/ivars-celebrates-age-old-fashioned-way-tallying-higher-sales-growth)

Grizzanti, Jessica, “It's also a real supper bowl/ whether you're a Steelers or Seahawks fan, there's plenty to eat to support both teams”, Pennsylvania: *The Times Leader* (Wilkes Barre), (February 2, 2006): 1A, Print*.* [*http://www.accessmylibrary.com/article-1G1-141596951/also-real-supper-bowl.html*](http://www.accessmylibrary.com/article-1G1-141596951/also-real-supper-bowl.html)

Depken, Craig, II, “New Stadiums and Concession Prices in Professional Football and Baseball”, Texas: *unpublished (data from 1991 to 2001)* [*http://belkcollegeofbusiness.uncc.edu/cdepken/papers.html*](http://belkcollegeofbusiness.uncc.edu/cdepken/papers.html)

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| --- | --- | --- | --- | --- |
| **Sales and Cost Projections\*** |  |  |  |  |
| **Qwest Field** |  |  |  |  |
| **SALES FORECAST - 3 SCENARIOS** |  |  |  |
| **Optimistic - initial year 10% more than realistic, with 8% annual growth** |   |
|   | **2004-05** | **2005-06** | **2006-07** | **2007-08** | **2008-09** |
| Sales  |  1,650,000  |  1,780,000  |  1,920,000  |  2,070,000  |  2,240,000  |
| **Realistic - Initial based on Safeco history, with a 2 % annual growth** |   |
|   | **2004-05** | **2005-06** | **2006-07** | **2007-08** | **2008-09** |
| Sales  |  1,500,000  |  1,530,000  |  1,560,000  |  1,590,000  |  1,620,000  |
| **Pessimistic - Initial year 85% of optimistic, with a 1 % annual growth** |   |
|   | **2004-05** | **2005-06** | **2006-07** | **2007-08** | **2008-09** |
| Sales  |  1,280,000  |  1,290,000  |  1,300,000  |  1,310,000  |  1,320,000  |
|   |   |   |   |   |   |
| **Operating Cost information** |   |   |   |
| Product costs |  | 20% sales | Includes material and labor |
| Payment to Seahawks |  | 40% sales |  |   |
| Variable Selling, General and Admin | 12% sales | *Does not include depreciation.* |
| Fixed Selling, General and Admin |  |  |   |
| Supervisor, Overhead |  | $170,000  | *Assume 1% annual growth. Does not include depreciation* |
| **One Time Investment needed** |  |  |  |
| Menu, decorations |  |  15,000  |  |  |
| Ovens, fryers, refrigeration, grill | 55,000  |  |  |
| Stainless tables & shelves |  |  4,000  |  |  |
| Exhaust Hood |  |  30,000  |  |   |
| Training program |  |  2,000  |  |   |
| Concession Fee - 1 time |  calculate  | *Payment from Ivar's to Seahawks for concession. Assume 50% of first year's sales (will vary), straight line - 5 years.* |
| **Depreciable Costs** |  calculate  |  |  |   |
| *Method: Straight Line, 5 year life.* |  |  |   |
|   |   |   |   |   |   |
| **Other Information** |  |  |  |  |
| Income Tax Rate |  | 30% |  |   |
| Hurdle Rate |  | 6% |  |   |
| Estimated major equipment repairs year 3 |  50,000  | Straight line, 5 years |
| Salvage value of new equipment | 10,000  |  |   |
| ***\* Most numbers on this page were not provided by Ivar's, but were estimated by Judith Paquette*** |