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## MOD Pizza: A Winning Recipe?

*Competitors can copy our store design and our pizza, but not our culture.*

— Ally Svenson, co-founder and head of brand.

Scott and Ally Svenson, founders of the Bellevue,<sup>a</sup> Washington-based MOD Pizza (MOD), sat in their living room one evening in May 2015 preparing for an upcoming board meeting. The young company already had 46 stores, and had recently raised \$45 million to fund its ambitious growth strategy of 100 stores by the end of 2015,<sup>1</sup> and 200 stores by the end of 2016.

The Svensons were successful serial entrepreneurs who wanted MOD to not only become a solid business, but to have a meaningful impact on the lives of its employees and in the communities in which it operated. To this end, MOD made a point of paying its employees well, provided advancement opportunities, and worked hard to foster a strong company culture that was welcoming, supportive, and gave employees—known as “MOD Squaders” or “MODsters”—considerable autonomy while still expecting strong performance.

MOD’s leaders worked hard to nurture the culture that had organically formed at MOD over its seven year history, and the Svensons discussed how to retain and sustain its core elements as the company expanded. Did MOD need safeguards, and if so what should they be? Or, could the culture be successfully spread by hiring the right people at the store-, district-, and market-manager level, inculcating them in the MOD culture, and trusting them to train front-line staff? The option to go public at some point in the future was also on the table. Would MOD be able to stay true to its founding values and principles as a public company, or would shareholder demands ultimately change its ethos?

### Pizza Restaurants

Pizza was a popular food in the U.S. One market research firm found that 84% of adults had eaten pizza made outside the home within the preceding month (see **Exhibit 1**).<sup>2</sup> Consumers either ate them

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<sup>a</sup> Bellevue was a city of 130,000 people located near Seattle. Source: City of Bellevue, “City Profile,” <http://www.ci.bellevue.wa.us/profile-intro.htm>, accessed August 2015.

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in restaurants, or purchased them for delivery or pick-up from restaurants ranging in size from single-location proprietors to national chains such as Domino's Inc. One market research firm estimated that the U.S. pizza industry was composed of over 38,600 restaurants projected to earn \$39.3 billion in 2015.<sup>3</sup>

An emerging category of pizza restaurants were fast-casual<sup>b</sup> concepts, and the U.S. might have as many as 2,000 such stores by the late 2010s.<sup>4</sup> The concept was particularly popular with young customers. "This new generation, Millennials [those born between 1980 and 1999<sup>5</sup>], they're used to getting everything their way [. . .]. It's just a customized world they've grown up in; they haven't known anything different," explained the CEO of one such restaurant.<sup>6</sup>

Scott felt that the true fast-casual pizza sector was comprised of a small grouping of restaurants which included MOD, Blaze Pizza, Pie Five Pizza Company, Pieology, PizzaRev, Pizzeria Locale (backed by the fast-casual chain Chipotle), Project Pie, and Uncle Maddio's, among others.<sup>7</sup> "The fast-casual restaurant category has gotten a lot of press because of the successful initial public offerings [IPOs] of companies like Shake Shack, Potbelly, and a number of other concepts that have been very well received by the public markets," Scott explained of this category's emergence. "So it is not only the hottest category within the restaurant space (see **Exhibit 2**); it may well be the hottest category with growth equity right now. But the fast casual pizza niche that we're in is a niche that just didn't exist a few years ago." Ally elaborated on Scott's latter point. "Raising four boys, we were always out driving them to and from activities in the evening. We'd look for quick meals but we didn't want fast food. One of the only things everyone would agree on was pizza, but we didn't have time to sit down at a restaurant. Instead, we'd always end up at Chipotle because the food was good and it had a cool atmosphere. It surprised us that no one had done anything similar for pizza."

Customers' ability to order a meal to their specifications was a key aspect of these fast-casual pizza restaurants,<sup>8</sup> and they shared a number of other similarities. "Their executives all toss around the words artisan, choice, and control[,] and regularly reference other fast-casual categories, like Mexican, sandwich, and burgers, in conversation. The stores all boast a wide range of crusts, toppings, sauces, and cheeses. They all bake their pizzas in specialized ovens in just a few short minutes. Most are focusing on a personal-sized [pizza] [. . .] and offering a laid-back, modern dining room and beer and wine services. And they all want to be the Chipotle of pizza," one observer said.<sup>9</sup> Prices were relatively uniform between the restaurants MOD competed with—typically around \$7 or \$8 for an individual size pizza—and these prices included customers' ability to add as many toppings as they wanted.

Many of the major fast-casual pizza restaurants had locations across the U.S., but California was a particularly intense area of competition for such chains as Blaze Pizza, Pieology, and PizzaRev.<sup>10</sup> The East Coast by comparison—particularly the Northeast—had a smaller number of restaurants. Blaze Pizza had four locations near New York City (two in New Jersey and two on Long Island) and three near Washington D.C., but none near Boston or Philadelphia.<sup>11</sup> Neither Pieology nor PizzaRev had any East Coast stores.<sup>12</sup> Pie Five had no stores open north of Maryland.<sup>13</sup>

Blaze Pizza's greatest concentration of its stores was in Southern California.<sup>14</sup> The company recorded \$33 million in system-wide sales in 2014,<sup>15</sup> and could have over 100 locations operating in 2015.<sup>16</sup> Pieology's 42 stores (in 2014) earned \$44.6 million in system-wide revenue.<sup>17</sup> Most of Pieology's stores were in California and clustered around Los Angeles, San Diego, and San Francisco, though it had stores as far east as Alabama and Kentucky.<sup>18</sup> Project Pie had 20 locations.<sup>19</sup> Nine stores were in

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<sup>b</sup> Fast-casual restaurants were: "A hybrid segment of fast food and casual dining, combining the convenience of limited service with the ambiance and quality of full service. Defining features include check averages of \$6-9; decor that is more sophisticated than a QSR (quick service restaurant); and food prepared to order, with customization of ingredients by patron being the norm." Katrina Fajardo, "Scope and Themes," *Pizza Restaurants – US* (November 2014), Mintel, accessed April 2015.

the U.S. (six in California), but it had a strong international presence with one store in Scotland and 10 in the Philippines.<sup>20</sup> PizzaRev had 28 stores, of which 21 were in California and the remainder in Utah, Minnesota, South Dakota, and Texas.<sup>21</sup> Uncle Maddio's had 37 stores,<sup>22</sup> and one observer noted that the company and its franchisees were "on track to have 300 restaurants open in five years with 1,000 units in development and is opening units every 10 days."<sup>23</sup>

The fast-casual pizza sector attracted interest from professional restaurateurs: the founder of the Smashburger chain started Live Basil Pizza;<sup>24</sup> Blaze Pizza was started by a founder of Wetzel's Pretzel's; Buffalo Wild Wings had invested in PizzaRev; and the former CEO of Applebee's was a Pie Five franchisee.<sup>25</sup> As the head of one chain noted, "[i]t's a land grab [. . .]. The stakes are huge. Who gets to own fast-casual pizza?"<sup>26</sup>

## Founding and Growing MOD

Scott and Ally were raised in Bellevue,<sup>27</sup> and moved east in the mid-1980s (a year apart) to attend college (Scott at Harvard and Ally at Wellesley). The couple married and moved to London, England after graduation, where Scott worked in finance<sup>28</sup> and Ally in publishing.<sup>29</sup> The two started their own business, Seattle Coffee Company, in 1995.<sup>30</sup> Ally worked at the company full time while Scott initially continued working as deputy CEO of a healthcare company.<sup>31</sup> "Setting the business up was a lifestyle thing. It wasn't something we did, thinking, 'Here's a great business opportunity, we're going to make a lot of money.' It was more, 'Here's something we miss in our daily lives.' That's probably why it was so successful—it was a labour of love," Scott said.<sup>32</sup> The two grew the company to 65 locations in the U.K., and had 12 licensed locations across South Africa, the Middle East, and Southeast Asia. The Svensons sold the company to Starbucks in 1998 for some \$85 million.<sup>33</sup> Scott stayed on through 1999 as the president of Starbucks U.K. and then of Starbucks Europe.<sup>34</sup> The Svensons then helped launch and build the Carluccio's restaurant chain, which also proved to be a financially lucrative venture. The company went public in 2005,<sup>35</sup> and had 34 U.K. locations by early 2008.<sup>36</sup>

The Svensons had returned home to Bellevue in 2000 to raise their four children. Scott established an investment firm, the Sienna Group, but neither he nor Ally were actively looking for a restaurant startup when the idea for MOD came to them. The Svensons were approached in the late 2000s by an entrepreneur who had previously opened restaurants to sell pizza by the slice, and he was now looking to sell personal-sized pizzas. The idea was rough, but the Svensons were intrigued. The Svensons recruited some experienced restaurant entrepreneurs, and together they worked to refine this idea into a restaurant concept. The Svensons chose to name the company after Britain's "mod" youth culture of the 1950s and 1960s, which Scott said was to "evoke the attitude, energy, and spirit of the mod era," characterized by Ally as a time of "playful and innocent rebellion." This fed into the company's personality and branding (see **Exhibit 3**). The name also stood for the company's mission to "MODernize" consumers' pizza restaurant experiences and for customers' freedom to "MODify" pizzas to their liking. Lastly, MOD could also stand as an acronym for "made on demand."

### *MOD Launches*

The first store opened in November 2008 in the midst of the global economic recession, and the founders used this opportunity to stress test the concept. "We wanted to see how inexpensive we could make our food and how much we could pay our people," Scott said. MOD's leaders decided to let customers add as many toppings as they wanted to their pizzas, but to charge a flat rate. The idea came from an experience the Svensons had at a luxury hotel where the mini-bar items were available free of

charge. “It’s not that the items were expensive, but it was the idea that the hotel wasn’t trying to nickel and dime us that stood out to me,” Scott explained.

MOD soon had an advisory board that included colleagues from their time with Starbucks, such as Jim Alling (see **Exhibit 4**). “Scott told me about the new store and I went for a visit. There was a huge line and great energy,” Alling said. He noticed a few inefficiencies and areas for improvement, and when he mentioned them to Scott, Scott asked Alling to come in and help. Alling ended up investing in MOD and working in the store for the next six months. “We didn’t want to start out with the wrong DNA. We had to get the quality and attitude right to make MOD something that customers would remember,” Alling said. He helped with basic food safety functions such as how to handle and prepare food; with operational details such as how to make the pizzas faster; and with aesthetic details such as how to make the pizzas look and feel more handmade.

In late 2010 and early 2011, MOD’s leaders opened four stores in different settings to experiment and determine how scalable the concept was. One store was in downtown Seattle, one in a trendy Seattle neighborhood, another in an affluent suburban residential area, and the fourth near a major university. Two stores delivered strong results, one delivered average results, and the one in the trendy neighborhood was eventually closed. The greatest lesson for MOD came from the store in the residential area. The company had printed stickers with the MOD logo and left them at the register for people to take; the Svensons soon noticed the stickers all around town on things like stop signs, car windows, and people’s laptops. The heaviest users were teenagers, and this impressed upon the Svensons the opportunity for MOD to serve as a community meeting spot. “We want the brand to resonate with this generation and their values,” Ally said. “I like to think that if *Happy Days*<sup>c</sup> had a pizza shop, it would look like MOD.” Chris Schultz, MOD’s senior vice president of operations, elaborated on this: “Our biggest fans are people between the ages of 6 and 16 who have a voice and are making the family’s decision on where to eat.”

With an idea of who MOD’s customers were and where the company should locate its stores (i.e. residential suburban areas), Scott and Ally discussed what they wanted to do. “We looked at each other and said ‘Do we really want to spend the next 10 years of our life building a chain of pizza shops?’ And we both said that we didn’t,” Scott recalled. “We had already run two successful ventures and we didn’t need this company to pay our mortgage. We wanted to make sure that we filled the remaining chapters of our professional lives doing something compelling, and just going out and opening a bunch of pizza restaurants wasn’t going to do it for us.”

Instead, they looked at how MOD could help them achieve other aims. “Through conversations with our team and our own explorations, we decided to use MOD as a platform to make a difference in the lives of the people who work for the company. Most of our positions are entry-level, and food service jobs have historically not been respected or well-regarded. We want to make service a noble profession,” Scott said. To this end, MOD paid its people at least \$10 per hour.<sup>37</sup> It also provided benefits to employees working at least 26 hours per week. It was equally important to Scott and Ally that MOD be a fundamentally sound business. “MOD is unapologetically for-profit,” Scott said. “The business has to be successful and competitive but we decided to ultimately measure success not in terms of revenues or the number of stores, but by how many people we could employ. MOD has a purpose beyond pizza. We wanted to run a business that our boys could be proud of.” The Svensons believed this philosophy resulted in a stronger performing company:

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<sup>c</sup> *Happy Days* was a popular U.S. television sitcom launched in the mid-1970s that harked back to 1950s icons and archetypes.

If you want to inspire and engage Millennials as employees, you need to give them something to believe in beyond a paycheck. We're a pizza restaurant, but we sell pizza in order to make a difference in peoples' lives. This provides a source of energy and motivation and is an incredibly powerful way to get employees to engage deeply with MOD and make an emotional commitment. They feel that the company is theirs, that they're in control, and that it's here to help them develop and get to where they want to be in life. They understand that MOD's – and their own – success depends on whether or not customers have a great experience and come back. If people do come back, this allows us to put additional resources into making a difference in more people's lives.

Scott continued:

There are a core group of companies that are trying to embrace what some have termed "enlightened capitalism." I believe that the world has changed over the last few years from an environment where there was a clear division between for-profit companies exclusively focused on business, and non-profit entities, such as government agencies or NGOs, who took care of everything else. The way in which the government has been managed over the last generation with over-commitments and accruing unsustainable amounts of debt means that it has limited resources and capacity to engage in communities and make a difference. This vacuum has to be filled, and I think there is a need for companies like MOD and others to step into that void.

MOD grew slowly and focused on getting its culture and operational processes right. Strong competitors started to emerge in 2011 and 2012, many of which grew quickly by franchising their concepts (see **Exhibit 5**). MOD had \$5.8 million in sales in 2012,<sup>38</sup> and became cash flow positive that year. However, MOD heavily invested in growing the business soon thereafter, adding people and infrastructure, which resulted in operating losses.

MOD had 14 stores open in Washington, Oregon, and California by the end of 2013 and revenues of roughly \$9 million for the year. The company continued to rely on funding from the Svensons and other early-stage investors,<sup>39</sup> who had put in a combined \$7 million.<sup>40</sup> MOD secured a further \$15 million in March 2014,<sup>41</sup> and expanded into Arizona, Colorado, Texas, and the San Francisco Bay area. MOD grew to 762 employees in 2014, and had 31 stores in seven markets by the end of the year. One of these stores (in Colorado) was operated by a franchisee. The company sold over 2,255,000 pizzas in 2014, up from 1,063,619 in 2013. MOD had revenues of roughly \$20 million in 2014 and same-store sales growth of over 9%, though MOD did have a negative net income. The average contribution margin (a measure of store-level profitability) for individual stores operating for at least one year had risen 46% between 2013 and 2015.

MOD closed a \$45 million funding round in March 2015, with the private equity firm Perella Weinberg Partners Growth Equity Fund (PWP) investing approximately \$27 million. The Svensons and other MOD leaders had debated whether institutional investors were the right ones for what MOD was trying to build, but ultimately felt comfortable moving forward with PWP. The key moment came when the partners from PWP doing the due diligence said that MOD might be trying to grow *too* fast and risked disrupting the culture. The partnership brought other benefits as well. "Raising money was a distraction for Scott. MOD could have raised another round of funding from friends and family, but now Scott is free to focus on what's most important," Alling said. MOD's leaders expected to again be cash flow positive by the end of 2015.

MOD had raised some \$75 million since 2008 with this latest investment. "MOD was able to raise so much money from friends and family because people believe in and trust Scott and Ally. They take

this responsibility personally and feel obligated to make MOD successful because this is a bet on them as individuals that they can pull this off," said MOD's CFO Kelly Allison.

**Marketing** MOD did not use traditional advertising channels such as television, radio, or print, but connected with customers through social media, word of mouth, and guerilla marketing tactics like handing out stickers. MOD was also experimenting with digital advertising in the Chicago-area market. Ultimately though, MOD relied on the in-store experience to earn business. "MOD's people are the front line of our marketing efforts," said Mary Douglas, director of marketing. "We sell pizza at one fixed price so we can't upsell customers to a more expensive product," Schultz explained. "The only way stores can grow is if their customer traffic increases. We want the service and experience to be so good that we'll have a lifetime customer after they come in once."

MOD Squaders were empowered to take care of customers by "Spreading MODness," which enabled employees to give customers complimentary food or drink at their discretion. One manager said that he used this freedom to give a pizza to a customer who seemed to be having a bad day or to a parent trying to get dinner for multiple young children. Store managers also chose a local organization or charity to partner with as part of each store's opening event (MOD donated over \$89,000 in 2014). "We want to teach our team members life skills through philanthropy and giving back. It makes the team feel empowered when they raise \$3,000 for a local cause and they really get a buzz from giving back and helping the community. There's a correlation between giving back, feeling gratitude, and feeling happy, which helps make them successful. We operate on the premise that happiness precedes success," Scott said. "And if we can help them develop life skills, then there are lots of benefits for MOD in terms of our position in the community."

However, it was difficult to distill the elements of what made "MOD" into a cohesive message. "We're trying to solidify what our brand is," Douglas said. "We see MOD as a lifestyle brand. Our messaging asks people 'Are you MOD?' and 'How do you MOD?' Being a MOD means doing the right thing. Our message is that there is much more going on here than pizza."

**Store location** MOD's site selection criteria included such factors as the capability of an area to support the business, attractive real estate prices, and population growth trends. "In deciding which markets to enter, we also factor in competitor activity to make sure that we are not a late entrant, but once we are in a market, we take an aggressive approach to secure the best locations," Scott said. "We try to cluster the stores to be efficient, but we also have to be opportunistic if a great piece of real estate is available. Because if we don't take it, a competitor will," Scott explained.

Suburban neighborhoods were optimal locations as they provided sufficient customers for both lunch and dinner, whereas MOD's leaders found that urban locations tended to have less traffic in the evenings and on weekends. Thus, for example, MOD did not open a store in downtown Philadelphia when it moved into Pennsylvania in 2015, but located two stores in suburbs 40 minutes outside the city instead. MOD employed a similar strategy as it opened stores near Chicago and Detroit.

MOD's leaders also considered the impact that a store could have on a community. "We want to go where we can make a difference," Scott said. "Places where \$10 per hour is a lot of money." When MOD opened its Allentown, Pennsylvania store, a city with a median household income of just over \$35,500,<sup>42</sup> Scott recalled an employee coming up to him and saying that "you gave me a chance and I won't let you down." Schultz had similar experiences. "Every time I attend a store opening I have employees come up to me grateful for the opportunity and say 'What you started is exactly what I'm looking for.' It makes me walk away thinking that I just need to work harder." Some of these stores were among the company's best performers. For example, MOD's store in Yakima, Washington, a city two-and-a-half hours away from Seattle and whose county had a median household income of

\$43,500,<sup>43</sup> was a better performer than the company's store in Newbury Park, California – part of the city of Thousand Oaks, which had a median household income of over \$100,000<sup>44</sup> – which MOD leaders felt was partly due to customers in Newbury Park having multiple fast-casual dining options.

**Franchising** MOD had avoided franchising because its leaders were concerned that partners might not understand the company's culture and purpose. "There is temptation to grow quickly by using other people's money," Alling said, "but we didn't want to turn MOD over to franchisees until we knew the model worked. Also, we couldn't properly incubate our culture if MOD grew too fast. The stores wouldn't have had the same feel and energy that they do today." MOD did ultimately agree to work with five partners after a careful selection process in order to get into key markets faster than it was able to on its own and to be a first-mover in the fast-casual pizza segment in these markets.

MOD's leaders envisioned working with as many as 15 partners at scale, and over time, each partner might have between 20 and 50 stores. Among the company's first franchisees was an individual who was the chief concept officer of the Red Robin restaurant chain,<sup>45</sup> and opened MOD's first store in a Denver, Colorado suburb in September 2014.<sup>46</sup> Future MOD franchise stores would operate in California (near Sacramento), Colorado, Michigan, North Carolina, and South Carolina by the end of 2015. However, 90% of all MOD stores would still be company owned by the end of 2015.

MOD's leaders had already determined the markets where they wanted MOD to operate versus those where it was a priority to find a partner. (See **Exhibit 6**.) They started this process by looking at the top 20 to 30 markets in the U.S. in terms of population and then grouped them into three buckets: 1) those MOD wanted to operate because they were close to existing markets, thus providing operational efficiencies and allowing the company to build brand awareness, or because members of the leadership team had experience in a particular geography; 2) markets that were important to be in, such as the Denver-area or the Carolinas, but which did not fit into the first category and for which MOD proactively sought franchisees; and lastly, 3) markets where MOD was willing to work with a franchisee but would not actively solicit one. John Dikos, MOD's vice president of partnerships, offered an example for the latter category. "If someone came to us and said they wanted to open a store in Cheyenne, Wyoming, we'd consider it, but that partner would have to commit to opening a significant number of MOD stores across the entire Mountain West market in such states as Wyoming, Idaho, Utah, Montana, etc. We're only working with a small number of franchisees so we're being disciplined about our approach to partner selection."

"Partners have to have the business acumen to run a franchise at scale, meet the basic financial requirements in terms of net worth and liquidity, and have restaurant experience, but we also want to know why they want to open a MOD store. If the potential partner only talks about metrics and not about the people it won't be a good fit," explained Dikos. "We want to bring in people that will collaborate with us to build this company, so a shared philosophical alignment is really important. If a potential partner says that he or she wants to open a MOD franchise in order to give an opportunity to the people that helped make him or her successful, that's a great answer. We also want partners who are doing it because they are intrigued by what we're doing, want to be a part of it, and will have fun helping us build MOD."

MOD wanted partners who could afford long-term commitments and were not focused on short-term gains. "We look for partners who can take the same kind of financial risk that we have in building a different kind of business. We want partners who are willing to take a leap of faith and are thinking about how low they can price their food while still taking good care of their team," Dikos said. MOD then invited potential partners who passed this first level of screening to the company's Bellevue area stores to see how they interacted with store employees, their reactions to the company's culture, and

how they talked about MOD. People from MOD would also go and visit the prospective franchisees at their restaurants to see how they worked with their employees.

## MOD in 2015

MOD's stores differed from one another in decor and layout (see **Exhibit 7**), as the Svensons did not want them to have an identical feel. "We have to be bold enough to let each MOD be unique to its community and put the right team in place to create their own MOD," Ally said. "We consider each new store to be the next in the series, not the next in a chain." In 2015, new stores were targeted to be between 2,500 square feet and 2,700 square feet in size, and the targeted cost for opening a new store was approximately \$525,000.<sup>d</sup> The weekly sales goal (or average unit volume) set for stores in 2014 was roughly \$21,000, and MOD ended the year comfortably above target. One district manager estimated that one of his stores in a semi-urban area conducted 8,000 transactions per month. Stores' highest costs were for ingredients and labor, which combined to account for around 60% of sales. MOD had year-to-date sales growth of 13.2% as of early 2015. (See **Exhibit 8**.) The key metrics MOD tracked included same-store sales, performance of new stores and markets, customer feedback (based on reviews posted to Yelp, where MOD had an average score of 4.2 out of 5), and efforts to gauge employee engagement (presently assessed via surveys, though employees would eventually be able to send feedback via a portal on the team's internal website). The company also kept a close eye on the state of the company's culture, though there were not yet any formal metrics to track this. MOD's leaders projected revenues of \$60 million in 2015.

MOD could typically tell how well a store would perform based on opening week results. The only store MOD had closed was in Seattle in 2013. It did not fit with its intended positioning, as it did not have a strong base of local families, and the neighborhood was described by Jamie Finch, an analyst for MOD, as "a trendy neighborhood where most of the restaurants are chef-driven one-off concepts."

When a customer walked into a MOD store, he or she stepped up to the counter and placed an order. The customer's food then moved along in an assembly line fashion where other employees constructed the pizza to customer specifications. The pizza then went into the oven for roughly three minutes, and customers typically received their food within six to seven minutes of placing the order. Customers could also purchase salads, desert items, and milkshakes which were made to order, as well as alcoholic beverages. Prices were set at \$7.47 per pizza in MOD's Washington, Oregon, Arizona, and Texas stores, and at \$7.87 in its California, Chicago, and East Coast locations. MOD's franchise partners charged \$7.27 in Denver, \$7.77 in North Carolina, and \$7.87 in Michigan.

Each store had between 20 and 25 people on payroll. Employees were cross-trained on all functions from cleaning dishes to cooking pizzas so that they could perform whatever task was most needed at a given moment. Most stores were run by a general manager (GM), who was supported by an assistant general manager (AGM) at locations with high sales volumes. Both GMs and AGMs were salaried positions. AGMs were paid between \$28,000 and \$34,000 annually, and GMs between \$36,000 and \$50,000. GMs were eligible for bonuses based on their stores' sales relative to budget, and food and labor costs relative to budget. GMs received 15% of their base salary in bonus if they reached all their target goals, and could earn more if they surpassed these goals (which roughly half of MOD's GMs did in the first quarter of 2015). New bonus metrics were being introduced which considered such factors as members of their teams being promoted and customer service measurements.

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<sup>d</sup> This figure did not include the money contributed by the property's landlord (typically in the high tens of thousands of dollars) to build out the new MOD store, which was a common practice in retail real estate.

Above the GM was a district manager (of whom there were four). District managers made between \$50,000 and \$75,000 in salary and had a target bonus of 20% of their base salary, with identical metrics to those of GMs. At scale, most district managers would manage between seven and nine stores, though the actual number depended on each manager's skills and how geographically concentrated his or her stores were. One district manager in an established market was responsible for between 220 and 240 people. District managers, in turn, reported to one of six market managers,<sup>e</sup> who each made between \$90,000 and \$110,000. Market managers would ultimately have between six and eight district managers reporting to them. As of May 2015, the number of stores and individuals managers were responsible for varied widely as some markets, such as Washington and Oregon, were well developed and reaching scale, while others such as the Mid-Atlantic region had only a handful of stores and employees.

MOD had nearly 1,300 store-level employees as of May 2015, and planned to have 2,200 at year's end. (See **Exhibit 9** for historical figures and for projected headcount numbers). "We like to hire people full time not only to help give them a living wage, but because customers like to come in and see the same person that gives them great service," Schultz said. The company also had nearly 100 people at its Bellevue headquarters (called the support center) and expected to have between 110 and 115 people by the end of 2015. Some of the functions centralized through the support center included marketing; finance and administration; real estate; design, construction, and facilities; human resources; and partnerships (see **Exhibit 10**).

## Managing Human Capital

GMs were responsible for staffing their stores and did not follow a standard interview protocol.<sup>f</sup> Ivy Harlan, the youngest MOD GM at 21 years old, described her hiring and screening process: "I want to hear about a customer service experience that blew them away. We're a customer service business that sells pizza so I need to see if they understand the elements of good service." Sam Mendez, GM of the Mill Creek store, described how he structured his interviews:

I'll ask people standard questions such as "What qualities will you bring to the team?", "What are your strong suits?" or "What are you most afraid of?", but I also tend to ask one or two questions that are just strange, such as "If you were a mythical creature, what kind of drawing would you draw?" or "If you were a color, what sound would you make?" There is no right answer to these last two questions. What I'm trying to determine is if they're confident in themselves and creative in their answers. This is a "think outside the box" company – there are many ways to make a pizza, and you have to make sure you're connecting with each customer and making the pizza exactly how he or she wants it. So if someone says "You know, I think I would be pink because it sounds like rainbows," that tells me the person is willing to take a chance and is not afraid to step outside their comfort zone.

A common approach used by many GMs was to ask applicants what they are passionate about. "We invite people to be themselves," explained Tony D'Aloia (known to everyone simply as Tony D), GM of MOD's Bellevue store. "It doesn't matter what it is they're interested in, because as long as they're passionate about something, they can be passionate about MOD." Training manager Kory Harp

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<sup>e</sup> There were more market managers than district managers at the moment because MOD had hired market managers for the new geographies it had recently entered (e.g. Chicago and the Mid-Atlantic region) where there were relatively few stores, and would then add district managers as the number of stores in these regions increased.

<sup>f</sup> MOD did not have a formal human resources team until 2014.

elaborated on this: “I can teach anyone how to do the job, but I can’t teach them how to care.” Heidi Durfee, MOD’s vice president of people, had started as a GM and said that she “was not a technical interviewer, but I was interested in learning about their lives. I wanted to hire people I’d want to have dinner with.” Durfee had been attracted to apply when she saw a job posting MOD had put on Craigslist that said “life’s too short not to enjoy the people you’re working with.”

Building a unique team at each store not only made work more enjoyable for the employees, but was viewed within the company as a business advantage. “It’s like putting together a baseball team. You don’t want everyone to be exactly the same,” Durfee said. Tony D elaborated on this point:

We want everyone to feel welcome, whether it’s a family with kids, a businessman in a suit and tie, or a construction worker with his hard hat on. I can connect with the construction workers or a person who is into heavy metal music and have a conversation with them. Another colleague of mine is really into sports and she’s a huge football fan. So when people with a team logo on their shirt come to the restaurant she can have a conversation with them. We need to have different personalities in the building to make sure that everyone who walks through the door feels comfortable.

The company took a disciplined approach to recruiting for positions at its support center and for high-level field roles. The process typically involved interviews with Scott, Schultz, and Allison. Any concern on the part of one of these people typically disqualified a candidate from further consideration. Prospective candidates were also interviewed by employees from different functions—for example, members of the real estate team would interview someone applying for a marketing job—to determine whether the applicant fit into MOD’s culture, and then all of the interviewers would get together to discuss the candidate with an emphasis on cultural fit.

Durfee recalled that she underwent a series of interviews over a four week period when she joined in 2009. The first interview was with Schultz and focused on Durfee’s work experience and on what MOD was trying to do; the second was what Durfee described as a “working interview” where she helped with a lunch shift at MOD’s store; the third was also with Schultz, and Durfee was asked for her insights into store layout and other operational details; and the final interview was with Ally, and the two discussed Durfee’s motivations for joining MOD, her professional interests, and her family.

MOD’s training was carried out at the store-level and through centralized functions. MOD had a seven-member team, led by Harp, whose responsibilities ranged from traveling to help open new stores (see **Exhibit 11**) to training GMs. The company also had 80 employees throughout its stores certified as All-Star Trainers (see **Exhibit 12**). These individuals had to be nominated by a GM or market manager based on their performance and ability to convey MOD’s culture. All-Star Trainers received a modest pay raise. Some All-Star Trainers were certified as specialists in certain areas such as customer service or food preparation. These employees were also expected to help with human resource functions such as job fairs and interviewing.

All new employees met with an All-Star Trainer on their first shift who took them on a tour and introduced them to other team members. Training for entry-level store employees lasted roughly one week, during which time they went through basic onboarding functions such as learning how to keep the store clean, assemble pizzas, and run the register. New employees were tested on the details of MOD’s nine core and seasonal pizzas at the end of this week. MOD also used an online training platform to upload videos and other training content such as quizzes, all of which were developed internally, to provide introductory and ongoing training. Roughly 75% of the content on this platform was videos, which also allowed Durfee to use her background in design. Another MOD employee, a

film school graduate, was working on a video documenting MOD's culture for internal use in addition to producing a number of other internal training videos.

GMs underwent four weeks, and AGMs two weeks, of training to learn how to manage costs, how to schedule employees, and become familiar with other operational details. Training times were halved for internal promotions. MOD's cultural elements were emphasized during training. "It's the GMs and other managers who hold the culture," Durfee said. Managers who tended not to work well were those looking for a standardized environment. "People need that entrepreneurial spirit because we hand them the keys to a million dollar store and it's theirs to run," Schultz said. Managerial training took place at four Seattle-area stores certified as training locations. Durfee envisioned having regional training centers as MOD expanded, but to also have a formal two- to three-day "cultural seminar" for employees to see the original store and meet other MODsters. Such cultural seminars already took place on an ad-hoc basis with less formality around the programming and format of these sessions.

MOD's leaders had also found that recognizing and supporting employees for their good work resulted in higher levels of motivation and performance. One employee (who had been promoted to a management-level position) recalled that the positive reinforcement of colleagues and managers when he started as an entry-level store employee gave him confidence that he could do the job. MOD also organized an annual event called the "Meeting of the MODs" to bring together all employees from store managers on up, where senior leaders gave out awards. Two award winners cited this moment as the highlight of their MOD careers. "It was nice to be recognized. It solidified how much I love the company, and it was great to feel loved back," Douglas said.

### *Turnover*

Stores experienced modest turnover and one manager noted that this was mainly from teenagers leaving for college or employees working at MOD while completing a degree and moving on after graduation. Mendez had recently lost three employees out of the roughly 25 he had hired in the preceding few months at his store. One left to go back to school, one quit, and one was fired for declining performance. "Turnover does happen because we can't accept average people. We're not an average company, and if we start to hire and retain people who aren't up to our standards, then we can't deliver on who we are. And if we can't do that, we lose our identity. We can't sell a pizza if people don't want to walk through our doors anymore because the service is poor. That's why average is not acceptable," Mendez said. Harlan had to let three employees go out of the 30 or so that she had hired in a little under a year. One was habitually late for work, another could not keep pace with the store's steady customer flow, and another was disrespectful toward other staff and did not respect her authority. In general, the types of people who did not last long at MOD were those who came across as insincere, did not actively look to help their colleagues and customers or advance the purpose of the company, did not take accountability or ownership for their actions, or were so eager to advance that they stopped being effective in their current position.

The company had also had to fire a few GMs and AGMs for issues such as theft, but such serious misconduct was rare. "We get maybe one issue at the store level each month that is serious enough—such as mistreating a customer or fellow employee—to make it up to the support center for us to become involved. In general though, we just don't have those issues," Schultz explained. Overall, MOD had annualized turnover rates of 30% at the GM level, 57% at the AGM level, and 138% at non-managerial store-level positions year-to-date as of late May. However, leaders believed that these numbers were not representative of the company's true turnover, as MOD had been growing so fast and transferring or promoting a number of people into new roles or locations that this artificially boosted the percentages. Average annual turnover at U.S. quick service restaurants was 120%.<sup>47</sup>

*“The Only Thing We Put in a Box is Pizza”*

One MOD leader described the company’s employees as the “cool kids in town,” and the company encouraged people to be themselves. MOD did not require employees to wear a specific uniform or force them to cover tattoos or remove piercings, nor did it dictate how employees interacted with customers. “We want people to feel empowered to make decisions,” Durfee said. “We don’t have a guidebook on how to take care of customers because there is no one right way.” Alling continued: “We want customers to say ‘my MOD is the best one’ because they believe that their local store does something special and different.”

MOD relied on its people to exercise good judgment and encouraged employees to act appropriately without legislating behavior. Durfee offered the following example: “One employee came in wearing sweatpants one day because we don’t have a dress code. Chris gave him \$20 and told him to go buy a Speedo to wear for his next shift, and the employee got the message. You have to respect the job as much as we respect you. You know when you’re pushing the line.” Leaders expected employees to act in sync with the company’s values (see **Exhibit 13**), and referred to this as giving employees “wide boulevards with high curbs” within which to operate. “As long as you stay within these curbs you can make mistakes but you won’t be wrong,” Schultz said. A few non-negotiable behaviors included theft, using or being under the influence of drugs or alcohol at work, or showing up late without notice. MOD had re-employed a few people fired for some of these behaviors after they received help for their underlying issues. Employees also had access to money from MOD’s Bridge Fund<sup>8</sup> to help them during periods of personal crisis.

Despite occasional issues of employee theft, MOD had not radically altered its systems or processes as a result. “After any type of theft, we always look for control weaknesses and attempt to improve upon our processes and procedures. This effort requires great balance and care though, as many times people have a knee jerk reaction after an event that violates their trust and want to ensure it never happens again,” Allison said. “Unfortunately, many of these knee jerk reactions—such as security cameras, dual custody controls on cash, etc.—create a perception of mistrust that can erode the company’s relationship with the 99.9% of the team who would never think of stealing from you in the first place.” “We don’t manage down to the lowest common denominator,” Alling added.

While people were encouraged to be individuals and have fun, they were also expected to deliver results. “We have to be careful that employees don’t start to think that MOD is all about personal development and that performance doesn’t count,” Scott said. “This is something we’ve really focused on within the last year by communicating that we care so much about our people and making a difference that we have to hold each other accountable for performance. In fact, the two are mutually reinforcing: we can’t make a difference if we don’t succeed as a business.”

*Second Chances*

MOD also employed a number of people in need of a second chance. This started when Durfee was working as GM of the Bellevue store. “This one individual came in and he had no resume, had never interviewed for a job, and had limited formal education. He had spent time in jail for selling drugs and no one was willing to give him a chance. Sometimes people just need a job so I hired him,” Durfee recalled. Some within MOD were skeptical about hiring a person with a criminal record, but he became

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<sup>8</sup> Employees could apply for money from MOD’s Bridge Fund to help in the event of an immediate need or emergency in their personal lives. While it was not necessary for employees to repay this money, a number of recipients had voluntarily repaid the Bridge Fund once they were able to do so.

a key employee. His colleagues also aided him with other aspects of his life: Durfee helped him open a savings account and the district manager took him to go and get his driver's license. "It's not about what people have done in the past; it's about giving them an opportunity. Now he is the GM of one of our stores," Durfee noted, also remarking that he was so popular with the store's customers that she likened him to the "mayor of the town."

Another employee in need of a second chance was Harp, who had also served time in jail for drug-related issues and had trouble finding work. "I didn't know how to talk or act when I first started working here, but my colleagues gave me positive reinforcement. I've been here for five years now and there's never been a day where I've not wanted to come in to work," he said. Harp rose through the ranks to become a GM, and was now in charge of MOD's seven-person training team. Harp had also won the company's inaugural "Role MODEL," award for 2014. "This job has given me my life back. Now I want to give back and help people grow."

Tony D had also spent time in jail for drug charges and obtained his job through Harp. He too had risen quickly within MOD and also served as a training manager. "I love to share my story and experience because I want employees to follow my path. I tell everyone that they have the same opportunities that I did and that if I can do it, anyone can." Mendez, the GM of the Mill Creek store, had served prison time for property crimes. "I was worried that people would judge me, but I was treated well and this stayed the same as the weeks passed. I've been here for three years now and I'm running the store and taking care of the deposits," he said. "I feel like this is where I belong. I love that we're encouraged to give back, and that I can comp someone a meal or pay for it out of my own pocket." Mendez ultimately wanted to become a district manager or training manager.

"Everyone makes mistakes and wants the chance to prove themselves. There is some risk to this but it is lessened if we screen people appropriately. We don't want it to become a policy, but it does make us different from most other organizations," Alling explained. "We're giving people a chance to do things they never thought they could," Schultz said. "One of our employees just told me that he qualified for a bank loan to buy a house – 10 years ago he was in jail."

Not all people given a second chance lasted at MOD, though. One former employee had a history of substance abuse issues and was fired after fellow employees noticed that he was acting odd. He admitted to being under the influence of drugs. He went to a rehabilitation facility and was rehired by MOD a few months later. This person initially performed at a high level again, but his work quality soon dropped off. He came into work under the influence of drugs one day and was again fired. Another former employee had prior substance abuse problems, but was a hard worker with solid customer service skills. He had worked at MOD for two years before he used his key to enter a MOD store afterhours while under the influence of drugs – setting off the alarm in the process – and stole from the register. Schultz convinced him to take responsibility for his actions, and the company then called the police. Durfee offered another example. "One of the first people I hired was someone who had previously struggled with drugs and alcohol, and he eventually relapsed into using them again. To see him go down that path was hard and I eventually had to let him go as his performance slipped," she said. "This was probably one of my most difficult experiences at MOD because I really wanted to help him and see him do well. He passed away last year of an overdose. When you take chances on people they can sometimes let you down but it's the success stories that keep you going."

The concept of second chances applied broadly throughout MOD. One employee had spent 10 years working at the Hooters restaurant chain and was embarrassed to tell his young daughters where he worked before joining MOD; another employee in his mid-40s had only ever worked as a bartender, and was now proud to tell his daughters where he worked. Even Schultz considered MOD to be a

second chance despite a long career at Starbucks, including stints at the company's headquarters. He had wanted to get back out into field operations and he got this chance with MOD.

The GM of one of MOD's stores had decided to partner with an organization that helped young adults coming out of foster care. This GM hired three individuals connected to this organization, and told a colleague "who needs family more than these kids?" MOD proactively contacted organizations such as FareStart, which helped people experiencing such challenges as homelessness find food service jobs,<sup>48</sup> to encourage their graduates to apply to MOD. "MOD is a family. Our logo is in the shape of a shield for a reason. We want to become the employer of choice with such organizations. This could help us go deep on the culture piece and we could even formalize it—maybe we won't go into a new market without such a partner in place," Ally said. The success of people given second chances gave the Svensons added motivation. "One employee's girlfriend came up to me and explained that he is now a father figure to her children, paying rent with clean money and trying to make sure that her children don't make the same mistakes that he did. It makes me happy to hear, but I also feel an immense pressure to make MOD successful," Ally said.

### *Founders as Leaders*

Employees offered insight into the way that the Svensons managed MOD. "Scott and Ally are both humble and respectful, and they want us to be passionate about what we do in life. If you've ever been to a MOD store, you'll see that this attitude is what drives our people: we know what Scott and Ally want to accomplish through MOD and this pushes us to do well. We're motivated by them to make the stores succeed because we know that MOD's purpose is to have a positive impact on peoples' lives," Mendez said. Schultz elaborated on this point. "Scott and Ally have built a culture that has become the guiding voice driving what we do. This has made it a unique place to work because we're not dependent on one person telling us to 'do this' or 'do that.'" Douglas offered an example of these values being put into practice at the store-level:

I got a call the other day from a customer who said 'I just feel compelled to call and tell you about one of your employees at the Tacoma store named Marcus. I'd been having a bad day when I walked into the store, and when Marcus asked what he could do for me, I just asked him to make me smile.' So Marcus made her pizza, and when she got to the register, he said 'It's on me.' When she asked why, he said, 'Because it made you smile. Just pay it forward.' Marcus demonstrated the MOD values and did exactly what Scott and Ally would have wanted him to do, and as a result, it made a huge difference in that customer's life.

Board members saw the Svenson's approach to running MOD as a key component to the company's future success. "You can't have ego-centric people who always want to be in the spotlight on the core leadership team," Alling said. "Scott and Ally have already had their time in the spotlight with their two successful ventures in the U.K., and they earned it by setting up the right type of organization. You don't accomplish what they've already been able to do twice by making them me-centric organizations. You do it by creating an environment that people want to be a part of; an environment that allows people to be part of something bigger than themselves."

### **Scaling a Culture**

One of MOD's challenges was finding the right balance between what to systematize and what to keep informal. Stores had to adhere to legal standards and regulations around labor and food safety, but GMs otherwise had significant autonomy. "There are purposeful tensions between performance

and structure, and between individuality and freedom. We wouldn't want to change to be a checklist-driven environment, but we can certainly put tools and resources in place without compromising on our culture," explained Vice President of Field Operations Neil Harfert. "For example, a store's primary costs are comprised of food, beverage, packaging, and labor, and we could offer better tools to help with writing efficient schedules, and provide a system so the management teams have better real-time information about product usage or overages, for example." Board member Chip Baird, a partner at PWP, elaborated on this point. "Restaurants have high turnover rates and this makes it hard to retain an intangible like culture. How do we give people the freedom to succeed and take ownership in their work while also having a replicable, programmable approach to growth?"

MOD's leaders were hesitant to achieve this by introducing assessment tools into the hiring or promotion process. Harfert recalled that shortly after he completed his training, he was tasked with finding qualified, multi-unit managers [i.e. market and district managers] in new markets on the East Coast and Midwest. The interview process at that point relied primarily on evaluating the strength of candidates' resumes, conducting phone and in-person interviews to see if they were a good cultural fit, and an on-the-job interview to see the candidate in action with store employees. Harfert suggested using an online assessment tool he had applied in other companies he had worked for, and had found to be a reliable predictor for success. "The assessment would evaluate a candidate's six mental attributes and ten personality dimensions, and give good insight into their potential to be successful in a multi-unit position," he said.

He was specifically interested in trying out the tool when considering a candidate for the Chicago market whom he was not able to meet in person prior to extending an offer. "I asked if I could test the screening tool and was told that it didn't fit the culture at MOD; that we don't do background checks, and we don't ask candidates to take any tests. I understood their position, and although we may revisit this at some point in the future, we might instead design our own behavioral interview questions that can be used in the interview process to give us more information to make decisions." Durfee explained why she was hesitant to conduct such screenings. "I said that if we introduce this test and take people like me, or Kory, or Tony, one of us is not going to pass and you've just made a bad decision. We all have different personalities and we each bring something different to the table. I don't think I would pass the test if they were looking for someone like Kory." Instead, the company required candidates who would be managing multiple locations to come to Bellevue and interview with a large and diverse group of MOD employees to determine a candidate's suitability for the position.

### *Protecting and Sharing "MODness"*

MOD's leaders were confident in the company's ability to scale its operations and make consistently good food, but wanted to ensure that MOD's culture would survive a national expansion. "How can we become a big company but still have each store feel like a community?" Schultz wondered. "We've had such a high-touch approach between the leaders that have shaped MOD's culture and those working in our stores. How do we scale that?" Douglas asked. Alling cautioned against prioritizing growth over culture and service. "If we stretch the leadership team too thin that's when we risk compromising on our core values. We spend a lot of time on this at board meetings. Furthermore, we can't get to the point where we take success for granted and don't focus on execution."

MOD's leaders felt that finding, training, and retaining store- and regional-level managers was essential to future success. These people were responsible for spreading and protecting MOD's culture in areas geographically distant from the company's Pacific Northwest hub. "What keeps me awake at night is where we're going to find our next set of leaders," Schultz said. "I also worry if we're quick

enough to get people out of the company that don't fit. The more they linger, the worse it becomes. This means that we have to be diligent about who we bring in—slow to hire and quick to fire.”

In mid-2015, MOD's leaders developed a five-member Rapid Response Culture Team whose members were called COBRAS—an acronym for Culture, Operations, Balance, Respect, Attitude, and Service—and who were MOD's “special operations forces” for cultural or operational challenges. The team was composed of four GMs and one market manager, each of whom could be individually dispatched to a store or market to fill in at a key position in a moment of crisis or to preemptively correct emerging issues. All of MOD's COBRAS were employees who had risen within the company and were perceived to be exemplars of its culture. Team members had not yet had to respond to any problems, but they would take future pressure off of Durfee, who had served as MOD's sole (albeit informal) COBRA to date. MOD was also in the process of formalizing its cultural seminars into what would be called the School of MOD. Two School of MOD sessions would be held every year for management-level employees from remote (i.e. non-Seattle area) markets for them to meet with departmental leaders, and to learn about the company's history, mission, and values. The first School of MOD would take place in early 2016 immediately following the next Meeting of the MODs.

Adding to the challenges of effectively spreading MOD's culture and training well-rounded employees was the sheer volume of managers MOD had to hire to achieve its growth plans. “A lot of what I learned was because I joined the company at an interesting time,” Durfee said. “For example, I got to learn about real estate as a GM and district manager because we were growing so fast and there were so few of us that we all contributed. Now, we might have to explicitly tell district managers to let GMs sit in on some of their real estate calls to help them develop and learn about the business. We need to make sure that leaders are not being secretive with their knowledge. What I do shouldn't be a secret if we want to grow as a company.”

In order to keep a small company feel, MOD's leaders examined ways technology could compensate for distance. MOD stores from different markets could be paired with one another to let these employees connect via video conferencing to share stories and best practices, and people who embodied the MOD culture could be video-conferenced in to stores. Employees already had a private Facebook page, and they had demonstrated an interest in connecting with each other. When one employee posted that his bike had been stolen, co-workers from across the country raised money to buy him a new one. MOD was also developing a team webpage where employees could access resources such as videos discussing MOD's core values, stories of employee experiences in the stores and support center, examples of how people used money from the Bridge Fund, and life- and work-skills training materials such as how to interview for a job and how to prepare a resume.

Non-technology efforts to keep the company feeling small also proved effective. MOD's support center had sent out t-shirts with “Keep MOD Weird” written on them to all stores. Leaders also looked at ways customers could help. “Maybe we can start a loyalty program where customers eat nine pizzas and then we give one away for free to someone in the community; they'll get nothing out of it other than helping improve others' lives,” Ally said.

### *Go Public?*

The next major decision MOD's leaders would have to make would be whether or not to go public. A few other fast-casual chains such as Noodles & Co. and Shake Shack had already had their IPOs. “Investors are hungry for fast-casual restaurants,” Scott noted. “But we want people to see how we've married performance with the ability to build a business that makes a difference.” Scott estimated that MOD would not be ready for an IPO for another one-and-a-half to three years at the earliest. “We're going to face a number of questions around whether or not we can continue to strike that balance

between purpose and profit,” Scott said. “How do you convince cynical investors who might say ‘It’s great that you want to feel good about what you’re doing but what we really care about is if you’re getting the best return on our investment’?”

The decision of whether or not to go public depended on how much of MOD’s growth plan could be funded through organic growth or additional institutional investors’ capital. Company leaders were also looking at taking MOD international, and opening stores in high-traffic locations such as the one it had opened at the Portland, Oregon airport in early 2015. The ultimate decision though was up to the Svensons, who still held a controlling share of the company via the Sienna Group.

## A Winning Recipe?

MOD’s leaders were optimistic about the path ahead. “In 10 years, I want MOD to be all over the world. I want this because so many lives have been changed, but only if we can do it without losing the brand,” Harp said. MOD’s leaders knew that achieving the ambitious goals they had set for the company would not be easy. “I think our biggest challenge is making sure that we continue to celebrate where we’ve come from and what we’ve done, and not to judge everything we do in relation to our competitors,” Durfee said. “We need to remind ourselves that we’re really great at what we do and we hire amazing people. We shouldn’t try to do things or fit a certain mold just because we think that’s how we have to act if we want to be a big company.”

**Exhibit 1** Pizza Consumption in the U.S., 2013 and 2014

“In the past month, have you eaten at, picked up food from, or had food delivered from each of the following for the listed meal occasions? Please select all that apply.”

|  | 2013 | 2014 |
|--|------|------|
| Any pizza consumption                                | 83%  | 84%  |
| Fast food chains (e.g. Pizza Hut or Dominos)         | 61%  | 64%  |
| Fast casual pizza chain                              | 21%  | 27%  |
| Sit-down pizza chain (e.g. California Pizza Kitchen) | 24%  | 31%  |
| Buffet pizza chain                                   | 19%  | 27%  |
| Frozen pizza from a grocery store                    | 53%  | 52%  |
| Independent, local pizza restaurant                  | 46%  | 50%  |

Source: Katrina Fajardo, “Consumer Data Overview,” *Pizza Restaurants – US* (November 2014), Mintel, accessed April 2015.

Note: “Base 2013: 2,000 internet users aged 18+. Base 2014: 2,000 internet users aged 18+.”

**Exhibit 2** Comparable Store Sales for a Fast-Casual Restaurant (Chipotle) and a Traditional Quick Service Restaurant (QSR), 2013 and 2014

|           | 2013 | Q1 2014 | Q2 2014 | Q3 2014 |
|-----------|------|---------|---------|---------|
| Chipotle  | 5.6% | 13.6%   | 17.3%   | 19.8%   |
| Pizza Hut | 0.0% | -2.0%   | -3.0%   | -1.0%   |

Source: Company analysis.

Note: Pizza Hut was owned by YUM! Brands.

**Exhibit 3** Examples of MOD’s In-Store Advertising

Source: Company documents.

**Exhibit 4** MOD's Executive Team and Board Members*Executive Squad*

**Scott Svenson, chairman and CEO** Co-founder of Seattle Coffee Company and Carluccio's Ltd; former president, Starbucks Europe.

**Ally Svenson, co-founder and head of brand** Co-founder of Seattle Coffee Company and Carluccio's Ltd.

**Kelly Allison, CFO** Former CFO, Freestone Capital Management.

**Chris Schultz, senior VP of operations** Former Starbucks operations.

**John Dikos, VP of partnerships** Former Qdoba director of franchise development.

**Great Pass, VP of real estate** Former senior real estate leader at JP Morgan Chase, Starbucks and T-Mobile.

**Neil Harfert, VP of field operations** Former Qdoba VP of operations.

**Heidi Durfee, VP of people** Former MOD director of training and development, district manager, and general manager.

**Steve O'Neil, director of operation services** Former Starbucks and Disney operations.

**Paul Scanlon, director of design** Former managing principal with Callison Seattle/London (Apple Global Retail) and concept design for Starbucks.

*Advisory Squad*

**Gerry Adams** Partner and head of hospitality group at Peterson Sullivan (accounting firm).

**Jim Alling** CEO of Toms; COO of T-Mobile; former president, Starbucks International and Starbucks North America.

**Chip Baird** Partner and co-head of the PWP Growth Equity Fund.

**Howard Behar** Former president of Starbucks North America and Starbucks International.

**Adam Brotman** Chief digital design officer of Starbucks; former founder of PlayNetworks.

**David Ferguson** Partner and co-head of the PWP Growth Equity Fund.

**Nader Naini** Founding general partner of Frasier Healthcare Ventures.

**Lindsey Schwartz** CEO of Schwartz Brothers Restaurants and Bakery.

**Paul Twohig** President of Dunkin Donuts; former COO of Panera Bread; and SVP of Starbucks.

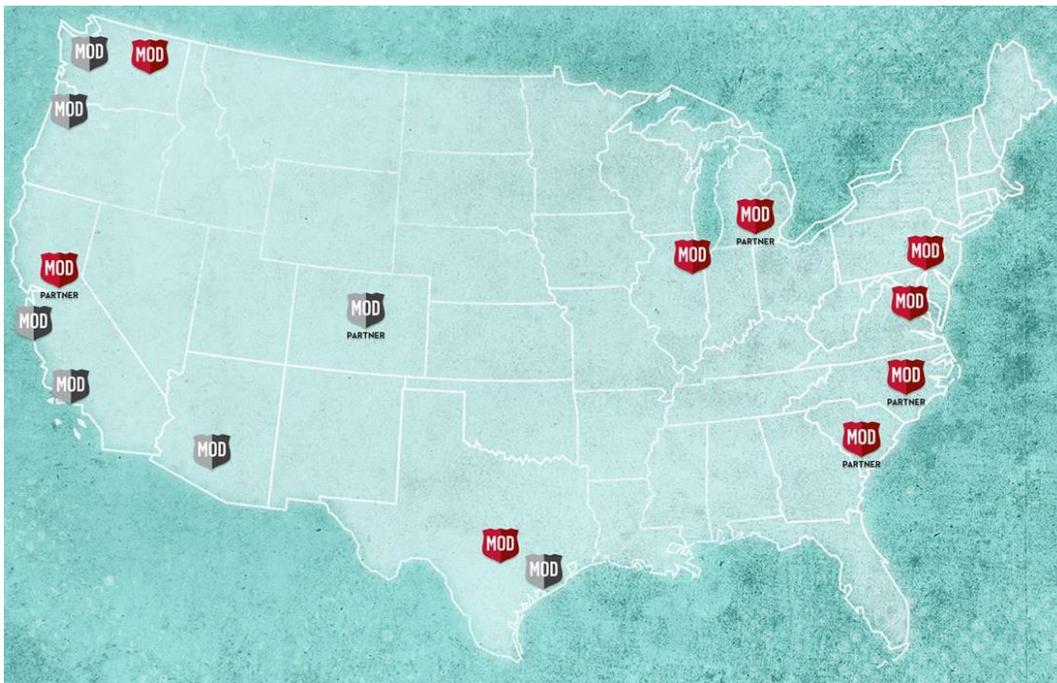
Source: MOD Pizza, "Leadership," <http://modpizza.com/leadership/>, accessed June 2015.

**Exhibit 5** MOD's 10 Most Direct Competitors (store counts are from April 2015)

| Brand           | Based           | Stores | Growth                | Backing                               | Positioning    |
|-----------------|-----------------|--------|-----------------------|---------------------------------------|----------------|
| Blaze Pizza     | Los Angeles, CA | 63     | Franchising           | Wetzel's Pretzels and other investors | Similar to MOD |
| Pieology        | Los Angeles, CA | 50     | Primarily franchising | Privately funded                      | Similar to MOD |
| Pie Five        | Dallas, TX      | 43     | Primarily franchising | Pizza Inn (public)                    | Fast food      |
| Uncle Maddio's  | Atlanta, GA     | 35     | Franchising           | Private equity                        | Fast food      |
| Your Pie        | Athens, GA      | 21     | Franchising           | Private equity                        | Similar to MOD |
| PizzaRev        | Los Angeles, CA | 25     | Balanced              | Buffalo Wild Wings                    | Similar to MOD |
| Pizza Studio    | Los Angeles, CA | 25     | Primarily franchising | Private equity                        | Fast food      |
| Project Pie     | San Diego, CA   | 7      | Primarily franchising | Private equity                        | Similar to MOD |
| 800 Degrees     | Los Angeles, CA | 9      | Co-owned              | Privately funded                      | Gourmet        |
| Pizzeria Locale | Denver, CO      | 2      | Co-owned              | Chipotle                              | Gourmet        |

Source: Company documents.

Note: Project Pie's store numbers are only its U.S. locations. It does not include its international operations.

**Exhibit 6** MOD's Existing and Year-End 2015 Geographic Presence

Source: Company documents.

Note: The logos with the left half shaded light gray represented pre-2015 MOD markets, while the darker logos represented markets MOD had already moved into, or planned to move into in 2015.

Exhibit 7 Images of MOD's Stores



Source: Company documents.

**Exhibit 8** Sample Store Economics and Performance Metrics

| <b>Store Level Model</b>   |                     |                      |
|--|---------------------|----------------------|
| Store sales  | \$1,200,000         | 100%                 |
| Cost of goods sold   | \$360,000           | 30%                  |
| Labor  | \$360,000           | 30%                  |
| <b>Prime cost</b>  | <b>\$720,000</b>    | <b>60%</b>           |
| Occupancy  | \$120,000           | 10%                  |
| Other expenses   | \$120,000           | 10%                  |
| <b>Contribution margin</b>   | <b>\$240,000</b>    | <b>20%</b>           |
| <b>Store Performance Metrics</b>                                   |                     |                      |
|  | <b><u>Model</u></b> | <b><u>Target</u></b> |
| Contribution margin  | \$240,000           |                      |
| Net investment (store capital expenditure – landlord contribution) | \$500,000           |                      |
| <b>Cash return on capital expended</b>                             | <b>48%</b>          | <b>40%</b>           |
|  | <b><u>Model</u></b> | <b><u>Target</u></b> |
| Store sales  | 1,200,000           |                      |
| Net investment   | 500,000             |                      |
| <b>Sales to investment ratio</b>                                   | <b>2.40</b>         | <b>2.25</b>          |

Source: Company documents.

**Exhibit 9a** MOD's Key Figures (Revenue numbers are in millions of dollars, except for 2008 and 2009)

|           | 2008     | 2009      | 2010  | 2011  | 2012  | 2013  | 2014   |
|-----------|----------|-----------|-------|-------|-------|-------|--------|
| Stores    | 1        | 1         | 3     | 4     | 8     | 14    | 31     |
| Employees | 17       | 18        | 48    | 84    | 121   | 353   | 762    |
| Revenues  | \$50,000 | \$610,000 | \$1.9 | \$3.0 | \$5.8 | \$9.0 | \$20.0 |

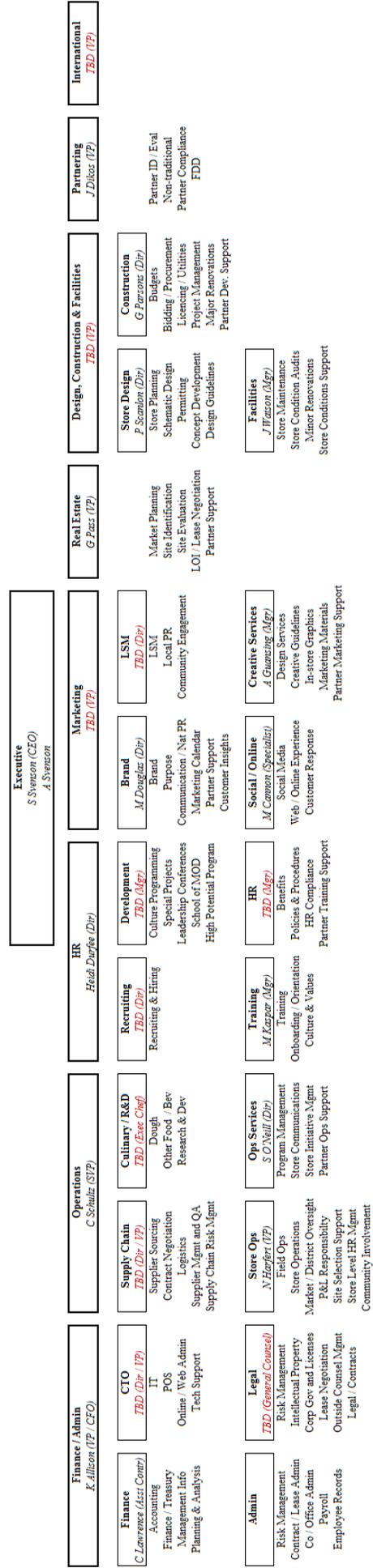
Source: Company documents.

**Exhibit 9b** MOD's Projected Employment Numbers

| Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 |
|---------|---------|---------|---------|
| 1,000   | 1,400   | 1,900   | 2,200   |

Source: Company documents.

**Exhibit 10** MOD's Organizational Chart



Source: Company documents.

**Exhibit 11** Example of MOD's Training Schedule for Opening a New Store

**Core Value Focus** – All trainers must live these values!

**Each day of training will focus on a specific core value:**

**Day 1: Individuality with Responsibility** Day one of training is all about getting to know each new individual MOD Squad member, as well as introducing them to what MOD is all about.

**Day 2: Grow and Improve Every Day** Day two of training focuses on the ins and outs of positional training. Encourage the MOD Squad members to make mistakes as long as they strive to grow and improve each day.

**Day 3: Be Passionate & Humble** Day three of training covers equipment training, prep, and refining skills on oven and expo. Encourage MOD Squad members to find what they are passionate about at MOD.

**Day 4: Performance Counts** Day four is a test day, and performance counts! Identify trainees' areas of strength as well as opportunities for growth.

**Day 5: We are a Team, We are the MOD Squad** All of the building blocks of training come together on day five, and the MOD Squad members must work together to begin the journey in their store.

Source: Company documents.

**Exhibit 12** MOD's All Star Trainers

**Qualities of an All Star**

**Storytellers** Passing stories to new MOD Squad members to share funny times, embarrassing times, and stressful times. No matter what hill we have to climb it is comforting to know that there are others that went through the same experience.

**Passionate and Humble** Passionate about our people, pizza, and opportunities. Thankful for each other and our customers.

**Performers** You walk the talk, you excel at all things MOD.

**Motivators** You make connections and build trust from your fellow MOD Squad members. You possess the ability to lighten the mood, coach in the moment, and inspire others to set goals and be successful in life.

**People Centric** People come first at MOD. An All Star team member celebrates their Squad and customers in all communities.

**Bridge Builders** We thrive on building bridges for people to help them along the way. All Stars never tear people down, disrespect them, or set them up for failure.

Source: Company documents.

**Exhibit 13** MOD's Values

**Individuality with responsibility** We accept everyone for who they are because we are at our best when we are ourselves—so be yourself and be your best. We celebrate authenticity, self-expression, genuine hearts and the individual spirit—the only thing we put in a box is our pizza! While the MOD Squad has plenty of attitude, we always combine it with sincere gratitude. We encourage people to be themselves, but we expect everyone to do so respectfully and responsibly.

**We build bridges, we don't dig holes** Life is a journey that is full of possibilities—we are all about helping ourselves and others to make the most of it. Every journey has challenges and we have all made mistakes—what matters most is what we do next. We believe everybody deserves a 'do-over,' a second chance. We thrive on building bridges for people to help them along their journey. We never tear people down, disrespect them, or set them up for failure—that is just not who we are. We also don't get blinded by where people have come from, but focus on who they can become—seeing the best in people, and recognizing their potential is what we do.

Smile, laugh, lend a helping hand—build people up and never tear them down.

**Deliver MOD experiences** At the heart of our culture is the belief that to be of service to others is both an honor and a privilege. We will deliver a service experience that sets a new standard for our industry—meeting expectations is simply not good enough. Our aim is to ensure that every customer and every MOD Squad member has an experience with us that is so positive and so memorable that it will cause them to pause and say 'Wow . . . that was awesome!'

We thrive on delivering customers and MOD Squad members random acts of MODness—experiences of service and kindness so far beyond their expectations that they are stunned.

**Wide boulevards and high curbs** You are empowered to act and to make decisions—use our values as your guide. Because we have a clear set of values to guide us, we don't have a lot of rules. If you act in a way that is consistent with our values you may make a mistake, but you will never be wrong. Mistakes are the tuition we pay to improve—if you aren't making mistakes, then you aren't trying hard enough. Act, learn from your mistakes, and get better every day.

With empowerment comes the expectation that you will be proactive. We all understand what we are trying to accomplish and we take the initiative to contribute towards accomplishing our goals.

**Performance counts** In all aspects of our lives, our actions count more than our intentions. To get ahead, to live a better life, to achieve our higher purpose, we have to perform. There are no shortcuts . . . we hold each other accountable to perform, because we care about each other and our purpose. While we avoid judgment, we expect performance.

We believe in hard work and doing what it takes to accomplish our goals. And we walk our talk—we act with integrity in all things we do. MOD Squad members and customers can trust us to do what is right, just because it is the right thing to do . . . If we make a commitment, we keep it—no exceptions. Be honest and direct—if you can't do it, don't commit. People are counting on you and we don't let people down. It's just not who we are . . .

**Grow and improve every day** Because none of us is perfect, we all have plenty of room for improvement. Both as individuals, as a team, and as a business we strive to get better every day. To stand still is to fall behind. We push each other to be the best we can be, because we care about each other.

We are innovative and creative in identifying ways to improve ourselves and the business because to stay ahead of our competitors and retain our position as the true leader in our space, we must continually improve. Our objective is not to be good, it is to be great, to be the best at what we do – delivering the most inspiring and memorable experience in the fast casual industry.

**We are a team . . . We are the MOD squad!** We are in this together – stay inside the curbs, live the values, and we will always have your back. Our goals are simply too big to accomplish on our own—we need each other. Every role at MOD is critical to our success and therefore we need everyone’s best, every day, in order to accomplish our goals.

Our connections to one another go beyond the typical team—we treat each other like family. We watch out for each other, and go above and beyond for each other. What goes around, comes around.

**Dream big and enjoy the journey** While working at MOD is a job, it doesn’t need to feel like work. Life is simply too short for it not to be fun so smile, laugh and spread some MODness!

And as we will only travel this journey once, let’s dream big, set ambitious goals and challenge ourselves to accomplish great things. If we shoot for the stars and fall a bit short, we will still have achieved some incredible things together.

**Be passionate and humble** We are passionate about our purpose beyond pizza and are therefore passionate about consistently delivering the MOD experience to every customer and every MOD Squad member, every single day. Most importantly, we will remain humble because we know how much we have to be thankful for. We regularly reflect on everyone and everything that has helped us get here, and appreciate the opportunities in front of us.

We are never arrogant but are instead quietly confident because we know that working hard and living our values will lead to success.

**We will never give up** What we are trying to accomplish is simply too important for us not to succeed. We will face challenges along our journey and will occasionally be discouraged. What we will never do is give up. We are too committed to our goals and to each other to ever consider defeat. If we stick together and stay true to our values, our passion and determination will ensure that we will succeed.

Source: Company documents.

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