

NOODLES & COMPANY: SUCCESS AFTER THE IPO?

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ABSTRACT

This case explores Noodles & Company, a fast casual restaurant that opened its first restaurant in 1995 under private ownership, obtained financing through private placements, and went public in 2013. The IPO was extremely successful but its stock price dropped significantly in late 2014. How does a restaurant successfully compete in the mature, highly competitive restaurant industry, open new restaurants, and how can CEO Kevin Reddy assure shareholders that the company will continue to be viable?

CASE SUMMARY

Noodles & Co. started with its first restaurant in 1995, went public in 2013, and by December 31, 2014 had 386 company-owned and 53 franchises with locations in 32 states. The company is in the fast casual segment of the restaurant industry and focuses on high quality food items with quick service. The company differentiates itself from other fast casual restaurants by focusing on food that incorporates noodles. Inspiration for menu items comes from many countries that incorporate noodles in their daily diet. The company adds limited time only menu items to its menu options throughout the year and added catering services in 2014. Since its IPO, the company has seen an increase in revenues --- modest increases reflecting the 2% annual growth rate in the restaurant industry and greater increases due to new restaurant openings. However, its stock price has plummeted from a \$40+ per share to current trading price of under \$15 per share.

The company has relied on social media, local marketing efforts, and in-store promotional items to advertise. It recently signed an agreement with a national advertising firm in order to enhance its marketing efforts.

The restaurant industry is in the mature stage and is reaching saturation in the United States. With fairly low capitalization requirements, new restaurants are continually opening. The industry is impacted by consumer confidence which is directly related to income, unemployment rates, and consumer spending rates. The industry is highly regulated by local, state, and federal rules and agencies. Currently new labeling standards and the Affordable Care Act are impacting restaurants and increasing expenses. New technology and applications are being quickly adopted in the industry in order to reach customers and decrease operating expenses. Restaurants must be flexible and able to change their menus to incorporate new food trends.

SUGGESTIONS FOR USING THE CASE

The Noodles & Company case is focuses on being successful in a highly competitive and saturated industry. This case is ideally suited for a capstone business course such as Strategic Management, but may be useful in courses that discuss international business concepts or general business principles such as an International Management or Principles of Management course. Students can conduct a SWOT analysis, Porter's Five Forces analysis, identify the corporate and international level strategy being implemented, and discuss macro-environmental impacts on the company. It may be interesting for students to discuss how a restaurant can differentiate itself, attract customers, and be successful in a competitive industry. The case can be used for in-class discussion and application of course concepts, small group activities, group presentations, or written case assignments.

LEARNING OBJECTIVES AND SUGGESTED ASSIGNMENT QUESTIONS

Teaching Objectives:

1. Evaluate the company's internal operations through a SWOT and resource analysis,
2. Evaluate the external environment through analysis of the macro-environment/driving forces and Porter's Five Forces analysis.
3. Propose alternative courses of action and make recommendations for a company in a highly competitive and mature industry.

Suggested Assignment Questions:

1. Prepare an analysis of the macro-environmental forces such as economic, political/legal, technology, global, demographics, and societal changes. Do these forces have a positive or negative impact on Noodles & Company?
2. Prepare a Porter's Five Forces analysis. What are your conclusions about the competitive environment of the restaurant industry?
3. Prepare a SWOT analysis. What information can be gained about the internal operations of the company? Identify Noodles & Co.'s tangible resources, intangible resources, and organizational capabilities.
4. Identify the business level strategy being implemented at Noodles & Co.
5. What recommendations would you make to the CEO Kevin Reddy?

REFERENCES

(Available upon request)