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[September 2001 / Cover Story](#)

## Cruising Speed

After taking 16 years to get 117 units, the custard king shifts into expansion overdrive.

*By Margaret Littman*

It's late afternoon on a Monday, comfortably after lunch but nowhere near dinner, on what is traditionally the slowest day of the week for chain operators. Yet the ample parking lot at Culver's Frozen Custard in Arbor Vitae, Wis., holds a handful of cars.

Inside, a gaggle of preteens fresh from summer camp order Concrete Malts and Shakes-the chain's super thick frozen custard treats-with mix-ins such as Reese's Peanut Butter Cups and M&Ms. A couple orders ButterBurgers and Norwegian Cod Filets for their two grandchildren and take a blue and white number to their table to sit and wait for their meals to be

served to them. At a nearby table in the carpeted dining room, three local businessmen snack on cheese curds, french fries and onion rings as they review paperwork.

Four cashiers, all smiling, friendly, helpful sorts, the type that is oft-portrayed in Jimmy Stewart films, serve this cross-section of customers. Nowhere are there the help wanted signs that paper this resort town. In fact, the only signage taped to the door announces openings at the local vacation Bible school. The restaurant is immaculate, showing no signs of the day's heavy traffic; counters and trash bins are clean, and a young boy in a Green Bay Packers shirt mows the grass next to umbrella-topped tables out front.

### Grassroots Beginning

Bob Golden, executive vice president at Technomic Inc., the Chicago-based foodservice consultancy, says Culver's



Husband and wife and Culver's co-founders Craig and Lea Culver.



mom-and-pop, come-over-for-a-BBQ approach is part of what has helped the chain thrive in a market where old-fashioned can be as out-of-fashion as day-old bread. Between 1995 and 2000, systemwide sales revved up more than 425 percent. The 16-year-old family-run chain, now at 138 units, projects it will have 471 by 2005 and estimates sales will more than triple between 2000 and 2005.

Despite its desire to accelerate growth—total units should double in just two years—the chain is not driving recklessly, insists President Craig Culver, who with his wife, Lea, and parents, Ruth and George, founded Culver's Frozen Custard in 1984 in Sauk City, Wis.

Craig Culver is overseeing growth for the regional concept and says he will not exceed the safe speed limit for unit expansion. He explains Culver's will grow concentrically, building franchisees in Midwest markets adjacent to its home state, a strategy that will allow the \$155.7 million chain to continue to milk its word-of-mouth marketing and consumer education on what frozen custard and ButterBurgers are. The only exception is expansion in Texas, where Culver's sister, Georgia Littlepage, and her husband, James, live and operate several units.

Now based in Prairie du Sac, Wis., the chain was born out of a beleaguered A&W franchise the Culver family owned, a venture they took on after operating several supper clubs in the state. Craig Culver worked for his parents in the supper clubs and then spent four years in unit management for an area McDonald's. "I learned the quality end of hospitality from my parents, but I learned the systems side, the financial, P&L, proper scheduling and waste management, from McDonald's," he says.

### **Breaking the Rules**

Culver's seems to be breaking all the restaurant rules of the road. By nature a QSR, Culver's offers table service. And even though an average order at the drive-thru takes three to five minutes to fill, 35 to 40 percent of all sales come this way. The 45-item menu is diverse and hard to categorize, with chili, soups, pork tenderloin and hamburgers among the offerings, not to mention the 139 frozen custard varieties.

"I'm amazed, because I think the menu is very complex. It is a tough menu board for consumers, with lots of danglers and specials. I think if it were mine, I'd be tempted to cut some of the things from the menu," says Golden.

### **Weeding Out Franchisees**

The anomalies don't end there.



The company, with all but four units franchised, provides no financing and requires all prospective franchisees to work for 60 hours in a unit-unpaid-before their applications are approved. Despite that, Tom Wakefield, a six-unit franchisee in Baraboo, Wis., says the list of interested parties is backlogged, far exceeding the kind of sensible growth management has mapped out.

"We are controlling our training program," Culver explains. That means limiting the number of new franchisee training sessions to just three per year and holding enrollment in those classes to 10 or 12 new operators. New franchisees can open no more than three units, which puts the cap on new units being opened by new franchisees at 36.

Bob Flintrop, who opened the first store in Michigan, was more than happy to work that long week for free. "I felt the training was the key to the success of both the franchise and me as a franchisee," the Oconomowoc, Wis., native says. "I was a long-time customer. I loved the food, loved the cleanliness, and I wanted be an entrepreneur. The training showed me how."

### **Honesty Works**

Wakefield, who as an independent contractor handles franchise sales for the chain, hears that kind of talk a lot. As a franchisee, he's able to honestly answer what's involved in running a Culver's unit, and both he and Culver believe prospective franchisees appreciate the candor.

"I think we are probably the worst salesmen in the world. We do not paint any pretty pictures," Culver says. "They get a true picture of our business. We talk about the pitfalls, all the hours in restaurant. We don't talk about the dollars."

For example, average unit volumes are \$1.5 million, but food costs are high—approximately one-third of sales—because everything is cooked to order with few frozen ingredients or supplied menu items. Labor costs are on average 24.1 percent of sales.

The menu includes frozen custard (\$1.39), premium ice cream with egg yolk added—with a whopping 13 percent butterfat—in vanilla, chocolate and a flavor of the day. Most units see one-third of sales from custard orders and 20 percent from ButterBurgers, fresh-made ground chuck on buns that are lightly buttered and toasted (\$1.59).

### **Best of Both Worlds**

A combination of regional family focus and national operations structure is what



keeps the concept well oiled, Golden believes. "It is a well-executed concept [because of its] training, policies and procedures of hiring the right people. It is a difficult concept to run because of the breadth of the menu, but they are able to serve customers quickly for a made-to-order kind of place," he says. "It is a tough concept, but they really do a very, very good job in training and quality consistency."

Craig and Lea Culver start those efforts from the very beginning, inviting franchisees and managers to their house to have dinner with them and their three daughters after monthly management meetings.

As vice president who oversees customer service, in addition to training and scholarship programs, Lea Culver personally responds to all customer complaint calls. Corporate employees say that diners who get patched in with one of the concept's founders really feel that management is listening.

### **Maintaining Culture**

Golden cautions that taking a wrong turn during expansion could put the brakes on the chain's growth plans. Craig Culver agrees: "Our greatest challenge is that the units are now not all 30 miles away; now they can be 1,000 miles away. I feel nothing out of the ordinary can stop us, unless we do not maintain that culture."

The concept's 100th unit opened in June 2000, with the newest markets in Missouri, Indiana and Michigan. The individual units are getting bigger, with 128 seats instead of the 98 that had been the norm for years. Natural light, more POS terminals and other physical modifications are all part of the tuneup necessary to enter bigger markets.

There are two ways Culver's is assuring such growth doesn't force the concept to change gears. Management feels strongly that franchisees should manage their units, and Wakefield goes one step further, preferring that married couples enter the business together, rather than have one spouse who is not interested in the operation.

"I think I feel the same way," says Flintrop, whose wife, Linda, helps him run the Kalamazoo store. "You do need to be an owner-operator, you need to be present in the dining room, making sure everything is OK, making sure coffee cups are filled. It's not that hard to do, but a lot of places don't."

"Money is one of the easiest things to come by, if there is a challenge, it is finding the right people," says Craig Culver.

Lea Culver says the company's eight-year-old scholarship program has helped in both recruiting and retention even in a tight labor market. Last month the program granted 96 different awards—totaling \$50,750—to employees to use for college or technical school. She hopes to start a similar program to help finance continuing education programs for older employees. For now, the current program builds goodwill with teens. Many scholarship winners have come back from college to work during school breaks and vacations, she says, even if they don't plan to return to the restaurant business after graduation. "We believe in the educational process. If they are not going into food business, that's OK, too," she says. "I think it shows we have a commitment to our young people."

### **Hitting the Highway**

Golden doesn't think Culver's has to worry about the big burger chains passing it on the left. "Even if they get to 200 units next year, they will still be under the radar of the big chains," he says. "At some point those \$1.5 million average unit volumes might start to look good, but I don't know that any big chains have tried custard, and I can't see them thinking that they can get rid of Culver's just by adding custard."

Since the chain is expanding because it wants to, rather than because shareholders are demanding it, the Culver family thinks the concept that was raised on small town roads is ready for the freeway.

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