

# **POKEY O's: DETERMINING THE LOCATION AND FUTURE STRUCTURE OF A DESSERT FOOD TRUCK**

## **Instructor's Manual**

**KEY WORDS:** Food trucks, industry life cycle, sustainability, supplier threat

**Case Synopsis:** This case recounts the story of the startup in 2015 of a food truck named Pokey O's that sold ice cream and cookies in downtown Waco, Texas. The couple who owned the truck, Julia and Austin Meek, had a very successful beginning; but by the summer of 2018, they were considering several options for the restructuring of their business. One possibility was to move their business inside at a local downtown Hilton Hotel. Other possibilities were to take the truck out of operation for maintenance and then vary its location from downtown to some of the municipalities outside of the downtown area. They were also considering purchasing another food truck and leaving one downtown and the other floating between several suburban areas. The couple wondered about the future profitability of a dessert food truck that relied only upon one downtown location.

**Intended Courses & Usage:** This case was written for use in an undergraduate Strategic Management or Entrepreneurship course.

**Research Methodology:** The authors interviewed Austin Meeks, the co-owner of Pokey-Os, to secure the information that was used in this case. The also looked at the owners' posts on social media and other secondary sources to gain further knowledge about the business. Local sources were used to gather demographic data and information on the local food truck scene.

### **Learning Objectives & Key Conceptual Foundations:**

At the conclusion of the case discussion, the students should be able to:

- (1) Explain the initiation and rise of the food truck industry in the United States;
- (2) Explore the circumstances surrounding the launching of an entrepreneurial venture;
- (3) List and explain factors that shape the future of the food truck industry;
- (4) Identify factors that shape the future of a food truck;
- (5) Describe the shared vision by the owners and employees; and
- (6) Determine the most viable location and future structure of a food truck.

The primary conceptual foundations upon which this case was developed were the following:

- (1) The history and status of food trucks in the United States;
- (2) Industry life cycle analysis;
- (3) Challenges to food trucks; and
- (4) Opportunities and threats to the food truck industry.

Information on the food truck industry was found in the IbisWorld edition dated December 2017. Data was provided on the following topics related to this industry:

- (1) Information about the industry;
- (2) The industry at a glance;
- (3) Industry performance;
- (4) Products & markets;
- (5) Competitive landscape;
- (6) Major companies;
- (7) Operating conditions; and
- (8) Key statistics.

### **Useful articles on food trucks:**

**The following are articles that extend the information provided in the case about food trucks in the United States. The instructor might want to read the articles before teaching the case to extract information that might further the discussion. College students probably know that they are the primary target of food trucks, so the first article might be redundant; however, the second article provides some interesting information on legal constraints that exist for food trucks in the United States. Therefore, the instructor might want to assign this article for the students to read before discussing the case.**

1. Borham, Yoon & Yeasun Chung (2018). Consumer attitude and visit intention toward food-trucks: Targeting millennials, *Journal of Foodservice Business Research*, Vol. 21, Issue 2, pp. 187-199. <https://doi.org/10.1080/15378020.217.1368807>

This study finds that millennials are the primary target of food trucks, and there are about 75 million young consumers in the U.S. that comprise the millennial group. Current college-aged students are an important subset of this generation and especially important to today's food service industry. They are the most powerful consumer group in the food service industry since they tend to dine out twice as frequently as the rest of the population and have more disposable income than that of the previous generation.

The findings indicate that millennials are concerned about improper food storage, ingredients that are not fresh, poor food quality and food poisoning, and unsanitary conditions under the hygiene issue. They also think that food trucks could negatively impact the environment by creating food/water waste and using many disposable products.

2. Lasserre, Michael R. (2014). Location, location, location: The food truck's battle for common ground, *Cumberland Law Review*, Vol. 44, Issue 2, pp. 283-318.

This article revealed that there were 1,800 food trucks in the U.S. in 2014. The article also suggested that the primary legal issues with food trucks tends to be proximity bans and various restrictions on their operations. In a court case entitled "One World Family Now vs. City and County of Honolulu" the court found that non-discriminatory bans on street vending are constitutional. The article also suggested that typically cities use ordinances to regulate how and where city trucks may operate.

### **Teaching Suggestions:**

At the beginning of the case discussion, the instructor might ask the following questions to set up the case:

- (1) How many of you have ever eaten at a food truck?
- (2) Why did you go to a food truck?
- (3) What type of food did they serve?
- (4) What might prevent you from going to a food truck to eat?

One of the challenges for food truck owners is the weather and its unpredictable nature. That was one of the reasons the Meeks were considering a change in their operations.

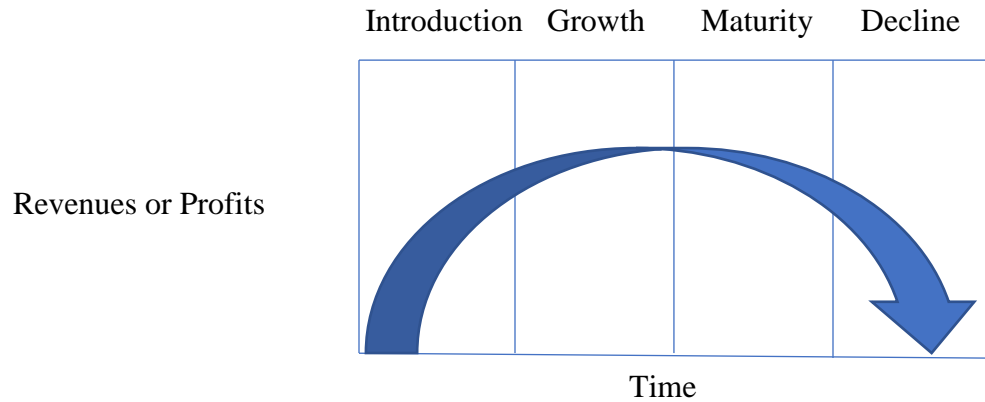
### **Discussion/Preparation Questions:**

- (1) Identify the stage of the industry life cycle in which the food truck industry was located in 2018 and suggest what implications that has for the decision that the Meeks must make; (Learning objective 1)
- (2) Utilizing Timmons' Model of Entrepreneurship analyze the circumstances surrounding the launching of Pokey O's Food Truck in Waco, Texas; (Learning objective 2)
- (3) Utilize Michael Porter's Five Forces Model to evaluate the opportunities and potential threats to the food truck industry; (Learning objective 3)
- (4) Identify and prioritize the **strengths, weaknesses, opportunities and threats** of Pokey O's in 2018; (Learning objective 4)
- (5) Discuss the shared vision of Pokey O's using the Johannessen model; (Learning objective 5); and
- (6) List possible strategies for Pokey O's and select and defend the most viable strategy. (Learning objective 6.)

**Question 1: Identify the stage of the industry life cycle in which the food truck industry was located in 2018 and suggest what implications that has for the decision that the Meeks must make.**

### **Answer:**

Below is the traditional Industry Life Cycle and a discussion identifying the stage of that cycle in which food trucks appears to be operating.



In order to identify the stage of the industry life cycle in which the food truck industry appeared to be in during the summer of 2018, we must look at the following information from the case:

1. New phenomenon which was almost non-existent before 2008;
2. Explosive growth during the past five years;
3. Revenue growth of 7.3% annually for the past five years;
4. From 2018 to 2023, the food truck industry was expected to grow at a much more moderate rate of approximately 3% a year;
5. From 2013 to 2018 many new entrants entered the industry;
6. From 2013 to 2018 there was a rapid introduction of new products in the industry;

These trends would suggest that the industry appears to be in the latter part of the growth stage. Because the growth rate of food trucks was expected to slow from 7.3% to 3% a year from 2018 to 2023, this would seem to indicate that growth has slowed down and the curve which had been almost vertical in the first few years was now beginning to level out.

In terms of the Meeks' food truck business, the future looks good. There are other food trucks in Waco, but they were the first with a dessert food truck. Although there has been a trend toward introducing new products in the industry, the Meeks are constrained by the rules of operation of the franchisor in Dallas. Since food trucks have been growing at a faster rate than brick and mortar restaurants in the past few years, it would make sense to continue to operate in a truck rather than a traditional restaurant.

**Question 2:** Utilizing Timmons' Model of Entrepreneurship analyze the circumstances surrounding the launching of Pokey O's Food Truck in Waco, Texas; (Learning objective 2)

Based upon the Timmons' Model of Entrepreneurship, there should be three components of a successful venture: The right opportunity, resources and team. The following are reasons this venture has been a success.

Opportunity recognition: Julia Meeks had worked had the original Pokey O's in Dallas when she was in high school. She was very impressed with the operations and profitability of the company. However, when presented with the opportunity of opening such a store on her own by the owners, Julia declined and did not believe this venture was right for her at the time. She planned to attend college, and she believed this opportunity was not right for her at the time. However, later when she married Austin and they moved to Waco, they saw this type of venture as an appropriate operation for them because Waco was growing quickly based upon the Magnolia presence in the city.

Resources: Fortunately, Julia's family was glad to assist the couple in acquiring a 2012 Nissan cargo van for \$15,000 and had it converted into a food truck for \$35,000. In addition, the franchisor in Dallas only required 4% of their revenues as a franchise fee. This is less than most franchisors charge for such an operation.

Team: The talents of Julia and Austin have both been utilized in this operation. Julia is the creative, outgoing person who primarily runs the business as a "happy, friendly, and slightly offbeat place." Austin complimented her talents by being the financial person behind the scenes. They both collaborated on social media which was their primary source of marketing. They were also able to hire 25 part-time college students to assist them with the work, and the students were fully engaged in the culture of the business.

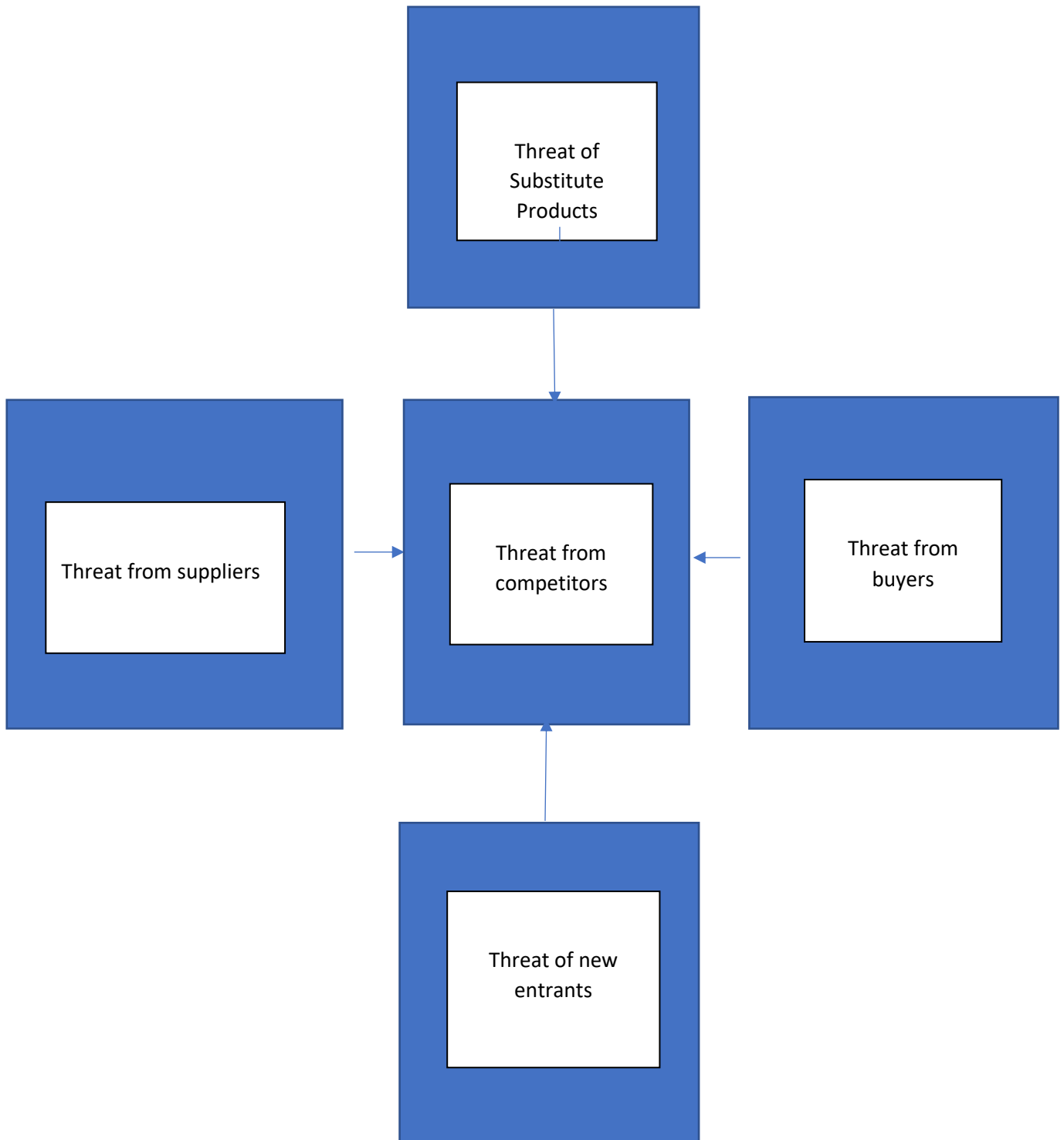
**Resource: Timmons, Jeffry, A.; Zacharakis, Andrew, and Spinelli, Stephen (2004). *Business Plans That Work: A Guide for Small Business*, McGraw-Hill Publishing Company.**

**Question 3:** Utilize Michael Porter's Five Forces Model to evaluate the potential threats and opportunities to the food truck industry.

**Answer:**

Below is Michael Porter's Model:

## Michael Porter's Five Forces Model



<b>Threat from competitors</b>	<b>Threat from substitute products</b>	<b>Threat from potential new entrants</b>	<b>Threat from suppliers</b>	<b>Threat from buyers</b>
The threat from other food trucks opening in the area is lessened if city regulations are restrictive.	Brick and mortar restaurants are not growing as rapidly as food trucks.	The fact that a food truck can be purchased for \$50,000 suggests that this is a fairly inexpensive industry to enter.	The threat that suppliers of the food offered in food trucks might raise their prices.	The annual problem of the population in a city shifting at various seasons of the year.
The possibility that competitors selling the same products will undercut the food truck's prices.	The cost to open a brick and mortar restaurant is \$275,000 to \$425,000 which is much higher than opening a food truck.	Increased regulations on food trucks may deter individuals from entering this industry.	A leading supplier may go out of business.	The threat that buyers will change their eating habits and become more health conscious for those trucks selling unhealthy options.
The possibility that competitors will find better locations in the downtown area of the city that the food truck operates within.	Buyers may find substitute products that are more competitively priced than those of the food truck.	The additional cost of paying for a commissary to prepare the food may deter people from entering the industry.	The threat of increasing prices for the ingredients of the food truck's products.	The possibility that buyers will not come inside if a food truck decides to move to a brick and mortar store.
The possibility that competitors will locate inside a brick and mortar building and increase sales.	Other more healthy products may become available and vie for the food truck's business.	New companies opening brick and mortar stores that compete with food trucks for customers.	The possibility that the corporate headquarters would increase percentage of revenues collected for a franchised food truck.	The possibility that if a food truck moved to the suburbs, the customers might not know where to find them.

Opportunities for the future of the five factors are the following:

Competitors – There are a growing number of entrants into the food truck industry. The revenues for the industry increased to \$959.8 in 2017, and from 2012 to 2017 the annualized growth rate of the industry was 7.3% while that of brick and mortar restaurants was only 2%.

Substitute products – There is a growing trend in this country for people to adopt a healthy lifestyle. Therefore, lighter foods with less caloric content may vie with the less healthy options often offered by food trucks. In addition, bringing one’s lunch to work or eating at home are always less expensive options than food trucks. **Because of the commercial growth of Waco, there will continue to be the possibility that substitute products may be offered in the city.**

Potential entrants – Because of the growth in revenues and offerings of the food truck industry and the projected 3% increase in such operations by 2022, more people may decide that this is an attractive industry. The growth of food trucks in the U.S. and in Waco, Texas, in general. In addition, the expected revenues by 2022 are expected to be \$1.1 billion. A growing market in the Waco area partially occasioned by the growth of the Magnolia brand.

Suppliers – “Derived demand” suggests that as the demand for a particular product increases so will the demand for the inputs into that product. Therefore, as food trucks continue to grow in popularity, so will the products that are sold in food trucks.

Sources for further discussion of the Five Forces Model:

Hitt, Michael & Ireland, R. & Camp, Michael & Sexton, Donald (2001). Entrepreneurship: Entrepreneurial Strategies for Wealth Creation. *Strategic Management Journal*, 22, 479-491, 10.1002/smj.196.

Covin, Jeffrey G. & Slevin, Dennis P. (1991). A Conceptual Model of Entrepreneurship as Firm Behavior. *Entrepreneurship Theory and Practice*, Fall 1991.

### **Application to Pokey O’s**

Porter suggested that normally other competitors pose the greatest threat to a company. However, in the case of Pokey O’s, it appears that its sole ice cream supplier—Blue Bell—may pose the greatest threat. This is based on the fact that the presence of *Listeria* in its products in the recent past has caused the creamery to shut down for a while. A similar episode in the future could threaten to shut down Pokey O’s as well. In addition, the possibility that this creamery could raise its prices in the future based upon the rising cost of its inputs could severely threaten the viability of Pokey O’s.

### **Question 4: Identify and prioritize the strengths, weaknesses, **opportunities and threats** of Pokey O’s in 2018.**

#### **Answer**

Below is a list of some of the strengths and weaknesses of Pokey O’s:

#### **STRENGTHS**

1. **High quality and brand recognition from regional supplier – Blue Bell Ice Cream.**



2. Owners are passionate and committed to business and have many years involvement with ice cream treats.
3. Strong customer loyalty among the millennials in the Waco area also known as Brand Awareness.
4. Lower costs in manufacturing and advertising by using the commissary as a bakery and home and utilizing social media to drive customer traffic.
5. Strong social media presence and skills to drive brand recognition.
6. Engaged staff with motivation to work (choose work hours and therefore staffing is not an issue).
7. Growth of sales is higher than industry average (\$50K a year).
8. Consistent margins of 7% net.
9. Strong base of backers in family and friends. Which has allowed them to operate with limited debt.
10. Increasing revenue from other consumers such as corporate events and birthday parties.

### **WEAKNESSES**

1. Reliance on one supplier and possible quality issues.
2. College student employees are gone during the summer and impacts staffing.
3. The food truck is shabby and needs renovations.
4. Cashflow is an issue because of seasonality as the case implies that some months the business might have a loss.
5. The interference of studies and social activities with their employment base.
6. The fact that ice cream is more heavily desired in the summer at just the time the college students in the area are away on vacation.
7. Leadership is diverted by other activities such as having children.

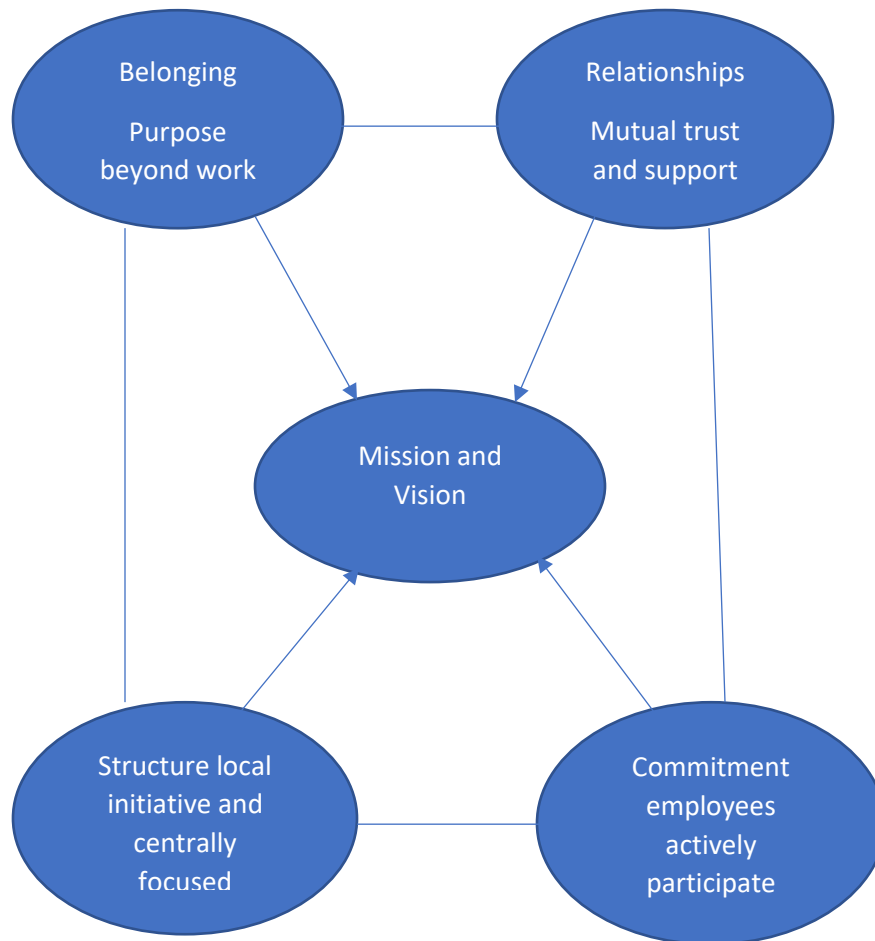
## OPPORTUNITIES

1. Increased demand in food truck industry and growth rate.
2. Growth in the city of Waco of new businesses and surrounding suburbs.
3. Large college student population for both employees and customers.
4. Low cost of expansion into the food truck industry.
5. Availability of retail and other intercept space.
6. Other customer markets such as corporate events and celebrations.

## THREATS

1. High threat of substitutes effect pricing ability and push need for differentiation.
2. High threat of entry due to low entry cost, causes firms to lower prices, spend to innovate menu items, and market.
3. Seasonality of ice cream desserts in the winter.
4. Seasonality of college workers and college customers in the summer.
5. Perishable food product with short shelf life.

**Question 5:** Discuss the shared vision of Pokey O's using the Johannessen model.



**Source:** Johannessen, Jon Arild (March 1994). A systematic approach to the problem of rooting a vision in the basic components of an organization, *Entrepreneurship, Innovation, and Change*, 3, No. 1, p. 47.

**Answer:**

Based on the information furnished in the case about Pokey O's and its structure, it is clear that the mission and vision were developed jointly by the two founders and was clearly communicated to all of the employees. There appears to be a feeling of trust and support from the Meeks toward their employees. One of the ways this is shown is through the individual scheduling procedure that they have set up. An employee is completely in control of his/her schedule and any changes that are made to it. That is quite different from most food service organizations where the schedule is rigidly fixed by the manager, and it is very difficult for an employee to have any input.

The company was founded upon a knowledge of the city of Waco and where most of the commercial activity was occurring. Therefore, the food truck was located in downtown Waco

near a commissary that was in the heart of the city. Later the couple were thinking of expanding by securing a partnership with a local hotel or else buying an additional truck and moving it around to the surrounding communities. A strong attempt to stay connected to the Waco community was exhibited by the daily blog and other social media posts by the owners.

**Question 6: List possible strategies for Pokey O's and select and defend the most viable strategy.**

**Answer:**

The following options were mentioned in the case and are discussed in more detail here:

1. Maintaining the business as it was. This would entail completing the necessary work on the existing food truck after the Spring semester ended. The Meeks had clearly figured out the formula for success with the food truck, and it was a nice lifestyle business. Some reshuffling of duties might need to be done to allow Austin to reduce the time he spent on Pokey O's, maybe even requiring them to hire a full-time manager. Costs for this option would be \$2,500 (see page 6 of the case under the heading "Truck Operations") to handle the repairs on the truck and approximately \$30,000 to hire a full-time manager for the business.
2. Buying an additional food truck(s). Buying a used food truck and remodeling it so that it was functional for Pokey O's would cost approximately \$60,000 (see page 8 of the case under the section entitled "Food Truck Equipment") This truck could then be used to expand into new geographic markets and reach new customers. However, since Pokey O's had been branded as a downtown eatery and relied heavily on college customers, how would it fare with a different core customer base.
3. Leasing retail space downtown and opening up a storefront location. This would enable Pokey O's to reduce the seasonality of its sales. It would also reinforce Pokey O's reputation as a downtown restaurant. The additional space that would be available would allow Pokey O's to expand the number of products that it sold and to offer its customers a way to get out of the heat during the hot summer. It would also allow Pokey O's to use its existing food truck to expand its corporate business and to expand geographically. Austin had found that retail space in downtown Waco was priced at about \$18 per square foot per year. That would amount to approximately \$21,000 annually or \$1,800 a month.
4. Partner with a local hotel to place a Pokey O's counter in a small, underutilized space just off the main lobby. Austin might be able to negotiate for a favorable rate somewhere between \$100 to \$400 a month since the store would bring more foot traffic into the hotel and also provide a dessert option for people staying at the hotel. This would allow Pokey O's to have an indoor location which would help with the

seasonality issue and would provide some access to hotel traffic in the hotel. However, the space would normally not be much bigger than what they had with the food truck, so the Meek's ability to expand its selection would be constrained. Also, a hotel would not get the regular foot traffic that might walk by an actual storefront on a busy street. Similarly, the location inside an existing hotel might mean that Pokey O's would need to limit the amount of people that they could serve during one of their typically popular promotions. During these events, dozens of people would line up in front of their food truck. Moreover, there would not be as many people buying on an impulse as there would be with a storefront location. This would allow them to repurpose the food truck to expand geographically

### **EPILOGUE:**

On August 19, 2018, they went to the Hilton Hotel. They use their kitchen for cooking the cookies and a space that was not being used for their store. They had talked to 10 places downtown, but the Hilton gave them the best deal. The Hilton does not really charge for the space that they use—only the use of the kitchen. The Hilton is seen as an international hotel, so having Pokey O's there tends to make it feel more local. Hilton is a good location because they are open 7 days a week and they host a lot of conventions and events such as weddings. The Hilton kitchen is very large and was underutilized, so they can now bake 480 cookies every 6 minutes there. Their space in the Hilton is a nook by the pool on the first floor which makes it easy for customers to come into the lobby and get to their store. They will be renovating their truck for several weeks and then move the truck to municipalities around Waco on various days\ and catering special events. They will advertise this on social media.

The opening day in the Hilton, Julia had a promotion and gave away \$13,000 in free food. That brought 500 people into the lobby of the Hilton which caused some confusion. Now she will be running the store full time, and Austin will be pursuing some opportunities in brand management consulting.