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## FINANCIAL POST BUSINESS NEW VENTURES CASE SERIES

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# Learning to Let Go

There comes a time when every entrepreneur must give up the wheel to focus his attention on growth

**The company:** Willy Dog makes the wiener-shaped hot dog carts seen on the streets in hundreds of North American cities. Founded in 1990 with a single hot dog cart in Kingston, Ont., the company developed first into a franchise network, and then into a manufacturer and distributor of high-end specialty food carts.

**The situation:** Willy Dog's founder, Will Hodgskiss, is ready to take the next step in growing his company. In the next three years, he wants to dramatically increase his annual revenues, to more than \$5 million from \$1 million. But will his business scale up elegantly, or suffer growing pains? And how will he find the time to make plans?

IN 1989, HAVING TAKEN LOSSES ON a string of real estate plays, Kingston resident Will Hodgskiss found himself close to broke. Entrepreneurial to the end, he leveraged the last few dollars in his savings account and bought a hot dog cart. It wasn't much, but Hodgskiss was convinced that, with the right discipline and vision, he could start with his lowly hot dog cart and build a serious growth business.

He was right. In less than a decade, Hodgskiss's business, Willy Dog, had grown from a one-cart operation to a substantial franchise network with cart owners patrolling North American streets. And – thanks to Hodgskiss's decision in his first years as a vendor to trade in his standard metal cart for one in the shape of an eight-foot-long wiener – it had developed a distinct and instantly recognizable brand.

By 2006, Hodgskiss's company was enjoying annual sales of about \$1 million. It had diversified from

its roots as a franchiser and had become one of the world's leading manufacturers of specialty carts for street-food vendors. Hodgskiss had travelled a great distance from his humble roots – but he was not yet ready to call it a day. He had set a goal of growing Willy Dog's annual sales to \$5 million within three years. When he reached that goal, he planned to step back from the company to either retire or start

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another business. Meeting that target, however, wouldn't be easy. For all Hodgskiss's success, Willy Dog faced a number of issues. It wasn't growing as quickly as it had in the past, and it was facing heightened competition. On top of that, Hodgskiss was wrestling with staffing issues, customer relations and breaking into new markets. In short, he needed to develop a fresh strategy to foster growth at his firm. But knowing that he needed a plan wasn't enough. Hodgskiss also needed time – something he didn't have, given the chaotic schedule that managing all the minutiae of his company forced him to keep. And without it, he was left wondering how he could plot a course to carry Willy Dog into the future.

And so, a manufacturer was born: Hodgskiss changed his franchising revenue model to encourage owners to buy the cart rather than the franchise, and he moved production of the carts in-house, hiring a staff of fabricators to man the production line.

But even though his company was back on a growth footing, Hodgskiss remained a classic founder, involved in every dimension of the firm he started. Three separate hotlines – for support, orders and other inquiries – were often routed to his cellphone. As a result, that phone was practically glued to his ear.

Hodgskiss felt it was important that Willy Dog customers be able to reach the "top dog" directly; that personal touch had been a hallmark of the company since its inception. But

as machinists and fabricators. Under the leadership of the shop foreman, this staff spent its days producing the company's signature carts. The rest of the operations, from finance to marketing, were handled by Hodgskiss, his general manager and an office clerk.

For Hodgskiss, this meant he had to keep up a frenzied pace of activity to manage the company's operations. In a typical day, he rose at 5:00 a.m. to tackle his e-mail inbox before breakfast and his morning run. At the office, he would handle everything from clerical work to minor errands, though two-thirds of his usual day would be consumed by supervising staff.

Though Hodgskiss described his ideal leadership approach as "hands-off," he couldn't resist getting involved in the day-to-day details

## Hodgskiss's schedule was chaotic. He'd rise at 5 a.m. to tackle his e-mail. At work, he handled everything from clerical tasks to running minor errands. Managing staff took up another two-thirds of his day

BACK IN 1999, when Willy Dog was celebrating its 10th anniversary, Hodgskiss was sitting on top of a thriving franchise network. But his company was starting to have problems. The revenue from franchise fees that had fuelled growth during Willy Dog's first decade was starting to dry up, and Hodgskiss's margins were thinning rapidly.

Looking for ways to generate new income, he began to experiment with making and selling his firm's distinctive carts. His revenue growth picked up dramatically. "I was making \$2,000 to \$5,000 per sale, with none of the follow-up of franchising," Hodgskiss recalls with a grin.

since he was involved in all aspects of Willy Dog's operations, he could be anywhere when a call came in. Customers liked dealing with Hodgskiss directly, but were occasionally frustrated when he didn't have all their information on hand. Hodgskiss, for his part, loved talking with his customers – but hated having to spend time reciting information easily found on the company's website. He valued the relationships, but wished that there was a more effective way of handling inquiries.

Part of the problem stemmed from Willy Dog's internal structure. Almost all of the company's 18 employees worked on the shop floor

of the business, from staffing to equipment. But his enthusiasm for running the business, he realized, left Willy Dog vulnerable. If he ever took ill, his general manager could handle only some of the company's operations for a limited time. But Hodgskiss knew he was personally still indispensable to the firm.

BY THIS YEAR, CART SALES had come to account for 80% of Willy Dog's annual revenue. But as the cart business grew, Hodgskiss began running into stiff competition from an entrenched U.S. manufacturer called All-American Hot Dogs Co. With fierce rhetoric on their

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graphic-saturated websites, the two titans clashed over features, quality and, eventually, price. It was war, and the battles bit deep into Hodgskiss's margins. His price woes didn't end with a single competitor. He also competed against a range of small local players, who Hodgskiss described as "backyard mechanics." Worse, his market for high-end carts was being eroded by online marketplaces for used carts. On any given day, dozens of carts could be found for sale on eBay.

Short-handed on sales and marketing staff, and faced with intensifying competition, Willy Dog turned to a distributorship model. Though it involved parcelling out a portion of the company's modest margins, Willy Dog's five American distributors contributed marketing and sales resources, and their high-volume purchases cut down dramatically on the cost of shipping the bulky carts. Finally, the local presence allowed for improved customer service and local regulatory knowledge for new vendors.

But while the distributor network had improved Willy Dog's outlook, Hodgskiss still wondered how to sustain his firm's competitive advantage. With individual vendors accounting for most of his cart sales, the majority of revenue came from one-off purchases. Hodgskiss's customer service and personal touch had built customer loyalty, but it didn't often translate to repeat sales. And while Willy Dog had invested considerable effort in product innovation, customers were highly price-sensitive and often indifferent about the firm's higher-gauge steel or other technical improvements.

HAVING TO FIGHT FOR every last sale to small-scale customers was an unappealing part of Willy Dog's business model. Over 70% of the company's sales came from small-time owner-operators and seasonal "hobby" entrepreneurs – often leaving the company saddled with bad

debt from failed clients. The last 30% of Willy Dog's sales, by contrast, was to business managers: franchised restaurants and professionally managed local chains. Earlier this year, for instance, Willy Dog completed an order for 10 carts from an ice cream vendor. But how, Hodgskiss wondered, could he go about finding more customers in this appealing segment? His own market research offered clues about how strong the hot dog market was: At major-league baseball parks, hot dog sales had increased by over 13% between 2004 and 2005, Hodgskiss learned. And 'curbside takeout,' the market that included Willy Dog-built stands, was growing even more quickly. With street-side vendors propagating rapidly, Hodgskiss knew his market was relatively secure.

At the same time, with increasing health concerns and a globalizing palate, would the lowly hot dog be abandoned in favour of sushi or samosas? The demand for frankfurters was enough to sustain Willy Dog at its present level, but Hodgskiss wanted more than comfortable, flat growth. He wanted to quintuple his annual sales and then make a graceful exit.

To do that, he had to find a growth market, but he wondered how his modest manufacturing operation would scale up. Between resignations and seasonal layoffs, his staff suffered annual turnover of 30%. On top of that, it was hard to keep trained staff in a market starved for skilled workers. Earlier in the year, Hodgskiss had to establish employee health and dental plans as a retention measure.

Intermittently starved for production capacity, Hodgskiss had experimented with contracting out production. The strategy worked out exceptionally well – until the contracting firm decided to launch its own cart manufacturing business, directly competing with Willy Dog.

Willy Dog was also highly reliant on steel to build the carts. With slender margins, Hodgskiss

wondered whether manufacturing was necessarily the most appealing part of his industry's value chain. With labour and input prices on the rise and mixed experiences with outsourcing, Hodgskiss would need to carefully consider how to grow his manufacturing operations to keep pace with the growth he hoped to foster.

THOUGH GROWTH WAS A priority for Willy Dog's founder, his schedule didn't afford him much time for strategic planning sessions. Busy revamping his cart models, dealing with his steel suppliers and handling the constant barrage of customer calls, Hodgskiss's days were already a flurry of activity. He had built Willy Dog into a million-dollar enterprise. But with so little time, he had no idea how to begin dealing with eroding margins and stiff competition.

## The Expert View

### By Kelley Packalen

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THE STORY OF WILLY DOG likely rings familiar for more than a few entrepreneurs. Hodgskiss's situation is often referred to as the "founder's trap:" Those who start their own businesses love the energy and excitement of managing the businesses they've created – but the hectic

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pace of their days leaves little time for any kind of strategic planning.

Hodgskiss has done an amazing job with his company thus far. He's almost single-handedly grown Willy Dog from a single cart to a million-dollar enterprise. But if he wants to reach his target of \$5 million in sales, he'll need to break out of the founder's trap. To do so, he needs to do three things: Hire, plan and evolve.

Most entrepreneurs' instincts tell them to do the second step first: Plan for growth. But when you have people to manage, work to do and fires to fight, there's not often time for serious planning. In fact, a responsible founder would not (and should not) ignore a customer order in order to write a business plan. The solution to this scheduling Catch-22 is hiring. Maybe it's consultants who can help share the burden of research and analysis. Maybe it's office staff to help take care of the "administrivia." Most likely, it will involve both. Strategic planning takes time. To do it right, entrepreneurs need to be able to block out periods of time each week to focus exclusively on the work of strategy. In most cases, this means being diligent about not letting everyday details creep into strategy time – and it means reaching out for talented help.

In the planning stage, Hodgskiss needs to take advantage of the customer knowledge he's built up by talking directly to his clients. He needs to understand what his customers value most about his product and service. For example, his clients' indifference to Willy Dog's distinguishing advantages like high-gauge steel, suggest that he may be able to reduce the cost of manufacturing his carts. He needs to think about how his products address his clients' existing problems, focus on those aspects that add value and drop peripheral services and features that are not desired. He should also spend this planning period taking stock of secondary but promising lines of business often referred to as "unexpected successes." One that stands out for me is Willy Dog's successful contract for fabricating ice cream carts. This early success suggests researching the market for other types of food carts would be time well spent. In both these expansion markets and his own "home" market of hot dogs, it's critical that Hodgskiss develop a clear understanding of market trends, sizing, growth and how to capture sales to the most valuable cus-

tomers. This information will help him set priorities and give direction to his growth plans.

Finally, both Willy Dog and its founder need to evolve. Founders can often find their passion for the business eroded as they transition from the jack-of-all-trades founder to a focused professional manager. This should be avoided: After all, the founder's passion is a key source of energy and momentum for the firm. This process of evolution should involve a frank self-assessment by Hodgskiss. He needs to ask himself what he loves about running his company. As CEO of a growth firm, he'll need to take a hard look at how he spends his time, and delegate some of his daily tasks. But if seeing the carts roll off the assembly line fuels his enthusiasm, for instance, he should be sure to schedule some time each week to spend on the shop floor. Founders preparing to grow their businesses should take time thinking not only about how to grow – but also how to keep themselves excited about and engaged with their firms.

## The Outcome

WILL HODGSKISS'S FIRST STEP toward his growth goal was a modest contract. Willy Dog hired a team of student consultants, led by a business school faculty member, to provide the company with inexpensive market research. With the founder's blessing, the team went beyond their original consulting mandate, and also looked closely at the company's internal structure.

First, the consultants tapped into the knowledge of staff, suppliers, distributors and customers. In so doing, the team uncovered a range of critical issues: Customers, for instance, complained about delivery speed and quality. They also raised issues with customer service by phone. The consultants spent further time talking to Willy Dog's distributors and other partners. One Florida distributor told them how he helped his cart customers in dealing with local regulations and bureaucracy. As a result of this feedback, Hodgskiss redoubled his efforts to expand his distribution network. With more local representation, Willy Dog could offer its customers improved shipping logistics as well as local support and guidance.

Hodgskiss, meanwhile, launched a plan to have Willy Dog's head office focus on courting chains and multiple-unit owners, leaving the

bulk of single-cart sales to distributors. He also leveraged the loyalty of his existing single-cart buyers by creating a referral network, offering bonuses to customers who referred business to Willy Dog. Finally, recognizing that Willy Dog served multiple distinct customers, Hodgskiss planned to revamp his promotional websites to focus more tightly on the needs of each customer category.

Acknowledging that price wars had left his margins eroded, Hodgskiss also worked diligently to trim Willy Dog's costs and improve production skills. One innovative approach was an incentive plan for his staff, aimed at building both skills, loyalty and public relations buzz: The staff worked together to build a high-performance sports car, which the company would eventually sell, distributing the proceeds among the employees. "I've never seen my team so excited," Hodgskiss says. "They win in terms of sharing in the profits and the fun factor, and I win from what we learn from it in terms of manufacturing."

The company also trimmed the cost of inputs, negotiating the purchase of stainless steel from bankrupt companies at a price well below the market average.

With his long-term goal firmly in mind, Hodgskiss and his consultants worked together to draft a three-year timeline for the company, specifying changes to internal procedures and laying out a plan for hiring new staff. As he delegated parts of his present role, Hodgskiss also planned to gradually begin focussing his own efforts on product development. He had already adapted the design of one of his carts, based on feedback from customers, and he was pleasantly surprised when sales of the modified product shot up dramatically. Hoping to replicate this success, Hodgskiss looked forward to gradually immersing himself in the product-development side of Willy Dog's business.

Beyond that, he also looked forward to the day when he would hit his new annual sales target of \$5 million. With Willy Dog back on the growth path, he felt confident it would arrive.

**Note: The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.**