

FRESHII INC.: SCALING UP CULTURE

Ramasastri Chandrasekhar wrote this case under the supervision of Dominic Lim solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In July 2017, Ashley Dalziel, chief people officer of Freshii Inc. (Freshii), a Toronto-based, international restaurant chain, was weighing her options for ensuring a common corporate culture across restaurants (referred to as stores) in the franchise system. When she joined Freshii in February 2016, founder chief executive officer (CEO) Matthew Corrin had given her a clear objective: replicate the unique culture of headquarters in each of the stores owned and managed by individual franchisees. The mandate was that she should transfer, among other elements of its corporate culture, what Corrin termed the “entrepreneurial spirit,” of the more-than-a-decade old company.

Freshii planned to increase its system-wide sales from US\$96.1 million¹ for the year ending September 2016 to \$365 million for the year ending September 2019. It also planned to increase the number of franchised stores from 244 in 2016 to 840 by 2019. Both targets were part of a long-term plan to build a billion-dollar global business from Toronto. Freshii had already established its footprint in 15 countries around the world, from Aruba to the United Arab Emirates, in addition to its presence in Canada and the United States (see Exhibit 1). Freshii also planned to enter new lines of business. For example, it was in talks with Air Canada to provide in-flight catering. It was also in talks with several retail chains, hospitals, and universities regarding opening Freshii stores in their premises.

Dalziel outlined her objective:

My task is cut out for me. The pace of expansion, at one new store a week, is rapid. The rate of growth will only escalate in future. It positions Freshii, as a company, at an inflection point. It also places me, as the chief people officer, in a nuanced role, facing two dilemmas. First, given the diversity of cultures that prevails at the store-level, how do I exercise remote control from the head office to ensure a homogenous culture in the Freshii ecosystem? Second, how do I convert culture into a not only sustainable but also scalable competitive advantage for Freshii?

¹ All currency amounts are in U.S. dollars unless otherwise stated.

THE GLOBAL RESTAURANT INDUSTRY²

The consumer food services industry had revenues of \$2.84 trillion worldwide in 2016. The industry had six broad segments: full-service restaurants (\$1.418 trillion), limited-service restaurants (\$738.1 billion), cafés and bars (\$449.4 billion), home delivery and takeaways (\$98.1 billion), self-service cafeterias (\$28.8 billion), and street stalls and kiosks (\$109.4 billion). The main characteristics of a full-service restaurant (FSR) were that staff waited on tables, and customers ate first and paid later. In contrast, a limited-service restaurant (LSR) had no wait staff, and customers paid first and ate later. A major sub-category of LSRs was the quick service restaurants (QSRs) such as McDonald's.

The origins of fast-casual restaurants (FCRs), as a new sub-category of LSRs, could be traced to the early 1990s, when a few American restaurants began offering an “elevated experience” as an extension of food delivery. For example, the Buffalo-based Au Bon Pain offered “handcrafted” sandwiches.³ The Colorado-based Chipotle Mexican Grill launched what it called “food with integrity,” using high-quality raw ingredients.⁴ FCRs had soon cornered a sweet spot that combined the speed of QSRs with the quality of FSRs. In a bid to reduce the time for preparation and maximize efficiency, FSRs were regularly optimizing their kitchen layouts.

It was during the economic downturn of 2007 that the new FCRs found their mettle. The downturn forced families to tighten their belts, thereby reducing the number of footfalls in various segments of the restaurant industry. Both FSRs and QSRs, in general, were hit hard. But FCRs were witnessing a rise in traffic. Their patrons were 18- to 34-year-olds, known as millennials, who were cutting their discretionary spending and, simultaneously, discovering the benefits of healthier eating. FCRs were among the few sectors that were thriving at a time when many established industries were reeling.

In 2016, nearly 600 FCR brands generated annual revenues of approximately \$50 billion worldwide.⁵ They were expected to grow in the double digits through 2022, while the rest of the restaurant industry was forecast to grow at 0.5 per cent. The FCR subcategory controlled 5 per cent of all restaurant traffic in 2016, up from 1 per cent in 2000. The subcategory was identified with 10 distinct attributes: perception of freshness, use of better ingredients, use of wholesome food, first-rate decor, fair pricing, fast service, friendly employees, flexible offerings, a full view of food preparation, and tasty food.⁶ These attributes resonated particularly well with the eating habits of millennials, who accounted for more than 50 per cent of customers visiting FCRs.

Millennials were also the most mobile-engaged consumer group, with an average of 2.3 restaurant application (app) downloads on their smartphones.⁷ Coincidentally, FCR operators were also using technology-based solutions to address customer expectations, and mobile apps were common among them. They were also using communication systems such as paging and radios to ensure efficient use of staff.

² Consumer Foodservice in 2016: Key Insights for Global Operators,” Euromonitor International, Market Research Blog, accessed October 31, 2018, <https://blog.euromonitor.com/consumer-foodservice-2016-highlights>.

³ “About,” Au Bon Pain Corporation, accessed June 23, 2018, <https://www.aubonpain.com/about>.

⁴ “Food with Integrity,” Chipotle Mexican Grill, accessed June 23, 2018, <https://chipotle.ca/food-with-integrity>.

⁵ Long Range Systems, The Gravitational Pull of Fast Casual, 2015, accessed January 31, 2018, <https://www.fastcasual.com/whitepapers/the-gravitational-pull-of-fast-casual/>.

⁶ Roberto A. Ferdman, “The Chipotle Effect: Why America Is Obsessed with Fast-Casual Food,” Washington Post, February 2, 2015, accessed January 24, 2018, www.washingtonpost.com/news/wnk/wp/2015/02/02/the-chipotle-effect-why-america-is-obsessed-with-fast-casual-food.

⁷ AlphaWise, “AlphaWise Survey: What Millennials Want ...,” Morgan Stanley Research, March 24, 2015, accessed August 25, 2017, http://static.ow.ly/docs/Millennials%20Morgan%20Stanley_3r3Z.pdf.

Irrespective of the category, the restaurant business had virtually no entry barriers. However, the attrition rates were high. For example, a study of restaurant permits in Columbus, Ohio, had shown that more than 25 per cent of new restaurants closed or changed ownership during their first year.⁸ A particular feature of the industry was that while the kitchen and the customer-facing areas were clean, the staff-only spaces seemed to be an afterthought. The latter were cluttered, leading to safety hazards and process inefficiencies. It also seemed to send out a message that while the customers were valued, employees were not valued as much.

Corrin explained:

The industry also has a culture of its own that has evolved over the years. Staff burnout is common because employees are expected to put in hard work for long hours. Having fun is important for survival on the part of employees. A people-oriented personality is necessary for a fit in the industry. Teamwork is critical. Managers rise through the ranks, starting off serving tables and washing dishes.

FRESHII'S INCEPTION AND ITS CONCEPT

Freshii was a new-age restaurant chain that served a healthy menu customized around core offerings of “fresh produce, lean proteins, healthy grains and ethnic spices.” Its mission was to “help people live healthier and better lives by making healthy food convenient and affordable.” By combining the low prices and convenience of a QSR with the freshness, ingredient quality, and innovative menu of an FCR, Freshii was pioneering a new “healthy fast food” sub-category.

Corrin was drawn originally to the idea of a restaurant business while witnessing, first-hand, how family-run delis briskly sold fresh food in the lanes of Manhattan in New York City (NYC). The lunch-hour crowds in the metropolis seemed to have an appetite for food items prepared and served fresh. It was the summer of 2001 and Corrin was then 19. He had enrolled in a two-year course in Media Relations at Western University in Canada and was in NYC for a two-month summer internship at the *Late Show with David Letterman*. The daily show was being taped on Thursdays and Fridays, and Letterman would have his dinner between tapings. He would order two dozen lobsters, pick one for himself and give the rest to the interns. It was his way of telling them, “Hey buddies, we appreciate what you are doing at the *Late Show*. Enjoy your lobsters while you are here.” It was a lesson in managing people and, more specifically, in using the medium of food to motivate them. The image had stayed with Corrin.

After graduation, Corrin was back again in NYC to work as manager of public relations with Oscar de la Renta, an apparel fashion house. The company did everything with a style and panache that was uniquely its own. It never took the cookie-cutter approach—a standard approach that lacked individuality. For the next two years, Corrin absorbed the details of the company’s efforts at branding, to which he also contributed. He was also pounding the lanes of Manhattan during lunch breaks. Food was becoming a passion. He was soon figuring out ways of creating a model for a fresh foods business that was scalable, brandable, and would “change the way people eat.”

The restaurant scene in NYC was competitive. Corrin therefore focused on Toronto as a place to start a restaurant because the city was cosmopolitan and had, similar to NYC, high-density intersections in its downtown core. In 2005, he opened his first store in downtown Toronto with \$250,000 in seed money from his parents. Staffed by four employees, the first store was essentially a salad bar that he called Lettuce Eatery. He was 23 at the time and had no retail management or food service experience. He did not even have a business plan.

⁸ White Hutchinson, “Restaurant Failures: The Truth and the Reasons,” Leisure eNewsletter, February/April 2007, accessed June 28, 2018, www.whitehutchinson.com/news/enews/2007/april/article112.shtml#article.

Corrin recalled:

I was naive to the high failure rates in the restaurant industry. I can say from the benefit of hindsight that my naiveté helped me jump through that big barrier. When I approached the restaurant business, it was not with a business eye. It was not with a restaurant eye. It was with a consumer eye. I looked at everything from the point of view of a consumer coming in to have fresh, healthy food. The perspective helped in building the business around consumer needs.

On Lettuce Eatery's opening day, the queue of customers was so long that he ran out of food before the lunch hour ended. That was a pleasant surprise. As the week unfolded, however, he began to face unpleasant surprises. The employee handling the cash register stole the takings. The employee working in the kitchen sliced his finger. The counter clerk broke his nose when he fainted from the sight of blood. In later years, the lessons Corrin learned became part of the chain's value proposition with franchisees on how they could avoid early mistakes.

Corrin managed the store hands-on for nine months before delegating the role to a store manager. He learned that the restaurant business was a perpetual work-in-progress in which a thousand little things needed to go right every single day—but could easily go wrong. Failure was thus an inbuilt option but, as Corrin recognized, failure needed to happen fast so that it could be corrected quickly before it would overwhelm other parts of the business.

Corrin had no grand expansion plans. He was looking at no more than 10 locations for Lettuce Eatery. His hands-on involvement in managing the store opened a window for him into the underbelly of restaurant business. Employee turnover was high, the service would slow down as the day went by, and he was often being robbed of both cash and consumables. He did not have an office at the time. The restaurant was his office. The culture he was dealing with day to day was the store culture. Corrin quickly learned that there was only so little that he could personally handle as an entrepreneur and that if the team were to take care of the food and the customers, he needed to take care of the team. He was following Letterman's example.

Corrin said:

Before I opened the store, I wrote down my business principles [see Exhibit 2]. They were in place of a business plan that I did not have to develop. I did that on a lark. I didn't know what they meant until I started putting them in to practice. I had no inkling that they were to become the enduring principles by which Freshii would measure its business conduct. They set the stage for what Freshii turned out to be. A culture that would kill meant, for example, extreme focus on revenues and margins. Building a killer culture meant giving team members complete ownership of their areas of work. It meant making them the CEOs of their limited roles, recognizing them for going beyond the call of duty, and seizing every opportunity to reward them.

The sense of ownership taught the young recruits lessons in leadership early on. Very soon, a dishwasher keeping the kitchen clean would receive a bonus—and would feel like the king of his terrain. A cashier who went out of her way to upsell water bottles would receive a reward—and would feel like a champion salesperson. Corrin was building, through subtle motivations, a captive pool of potential store managers who could move into positions of leadership as he started opening in new locations in Toronto. From earning CA\$7.50 an hour, at the then prevailing minimum wage rate in Ontario, employees would soon be making CA\$35,000 a year as store managers.

It was not until he opened eight more stores in Canada over the next two years that Corrin decided to enter the U.S. market. In 2007, he chose Chicago as the testing ground for going international. Chicago was a hard-core steak-potato-wine town where diners seemed to relish marinated offerings. Corrin thought that if he could do well in Chicago with his fresh offerings, he would do well elsewhere in the world.

By then, Corrin had also realized the need for a change in the name of the restaurant chain, consistent with the gradual change in its customized offerings, which had moved beyond salads. Piping hot soups were selling well during Canadian winters, and fresh burritos were preferred items among male customers. Some of the other new items, such as the rice bowl, oatmeal, and yoghurt, which were wholesome meals, also had higher margins. The name Freshii seemed to resonate with the change in the menu.

Corrin enlisted the help of Leo Burnett, a leading advertising agency, in rebranding Lettuce Eatery into Freshii. The challenge was to maintain the ultra-clean design style of Lettuce Eatery while communicating that Freshii was about more than just greens. Leo Burnett reconfigured the store design, product packaging, signage, and bags. The agency suggested a green motif for the stores. The agency also helped the company plan its first-ever direct mail campaign by sending 100,000 flyers to homes and offices near Freshii locations in a bright new bid at customer acquisition.

Freshii's commitment to freshness was evident in three ways. None of its stores had microwaves or freezers on its premises. Each of the 60-plus menu items was made at the store, and certified nutritionists had validated each item. The items were evolving regularly, in tune with the way the definition of the term "healthy" was evolving. For example, when the chain had started, brown rice and spinach were common items on the menu. They had since been replaced by quinoa and kale due to changes in popular taste and popular demand.

Freshii secured its market positioning and strengthened it over time at the convergence of three separate factors: entrepreneurship becoming an aspirational factor among the working class, a growing awareness of health and wellness among consumers, and a rising tide of millennials. Corrin could attract a pool of talented entrepreneurs with the promise of growth by offering both unit economics that were compelling and the whitespace (untapped) opportunities that the FCR subcategory itself provided. The trend toward a lifestyle marked by health and wellness was being fuelled by millennials who, according to United Nations estimates, represented the single largest population group in the world at 2 billion.⁹ By 2010, half of Freshii's customer base comprised millennials, and 65 per cent of its franchisees were millennials, as was Corrin himself.

In the early years, typical of his peers in the industry, Corrin had focused on the brand, customers, and employees, in that order. In 2013, when he participated in *Undercover Boss Canada*, a reality television show that disguised corporate CEOs and dispatched them to the frontlines of their companies to work incognito with employees at the grassroots, he realized, once again, the importance of placing employees ahead of all else. He changed Freshii's strategic focus to employees first, the brand second, and customers third. The most visible implementation of the revised strategy was at the product development stage. For example, previously, the team developing a chili would have asked, "How will customers like this chili?" Under the revised strategy, the development team asked, "How can we make it easy for staff to prepare and serve this chili?"

ACCELERATED GROWTH AND AN IPO

Freshii quickly picked up growth momentum. Soon after the Chicago launch in 2008, Corrin started receiving enquiries for franchising opportunities from within both Canada and the United States. What

⁹ United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects: The 2015 Revision*, DVD edition (New York: United Nations, 2015).

began as a trickle was to snowball into an average of a dozen franchising enquiries every week. There was seemingly a reservoir of entrepreneurial talent. The franchise seekers were an eclectic mix: new immigrants trying to find their bearings, school teachers tapping into their entrepreneurial instincts, employees in competing franchises eager to strike out on their own, and people who owned existing franchises and were willing to divest them to acquire a Freshii franchise. Also among the potential franchisees were financial analysts from Wall Street (in the United States) and Bay Street (in Canada), former National Basketball Association players, and Olympic medallists.

Corrin found the franchising business model to be attractive on several grounds. First, it was asset-light, requiring minimal capital expenditure on the part of Freshii. The franchisee would make the necessary investments in setting up a new store. Second, Freshii would not need to spend on trade promotions because those costs would also be borne by the franchisee. Third, the model would ensure rapid scale-up because Freshii was required to set up only the standardized, replicable infrastructure. Fourth, franchising would secure a regular cash flow for Freshii because the cost of goods sold on its books of accounts would be minimal. Finally, franchising would make Freshii a company that collected royalties and harvested its core skills rather than a restaurant doing day-to-day operations.

The process of franchisee selection was automated and self-selective. Several applicants dropped out on their own in the first round since they did not measure up. The time between a franchise application being received and a franchise agreement being signed was approximately eight weeks. After the initial screening, the franchise development team, reporting to the vice-president of marketing, would begin to vet each applicant. Once shortlisted, the franchisee and their team would visit the Freshii headquarters (HQ) to meet with Freshii senior executives, talk to HQ employees, tour the stores of their choice, and speak to other Freshii franchisees to get a sense of what they were getting into.

The franchise fee was pegged at \$30,000 per store, payable upfront to Freshii. The non-refundable fee was in addition to the royalty of 6 per cent on sales that the franchisee was required to pay every year.

Corrin described his role:

I am personally involved in franchisee selection. To me, it is as important as employee selection. I sign every franchise agreement. I meet with every franchisee and her/his team before the franchisee signs on the dotted line at the HQ. I shake every one of their hands. It signals my personal commitment to the partnership. That is the Freshii culture. As the founder CEO, I can afford to make decisions for the long term. Unlike a hired CEO who should get results within a tenure or get out, I am here for the long haul. Being incredibly disciplined around issues of people culture is a natural extension of my role as the founder CEO playing long term.

Freshii provided ongoing coaching and support to the franchisees through a team of designated field consultants, who served as the interface between the HQ and the franchisees, identifying problems and finding solutions on the spot for them.

Freshii had a centrally managed supply chain, which was in accordance with the general need for consistency in food specifications. A bowl of salad being served in Dubai would have the same ingredients, the same mix, and the same preparation as the salad served in Toronto or Chicago. Centralization also helped keep the costs of procurement in check since the chain could leverage its size in negotiating purchase contracts. The company had contracted with Distribution Market Advantage Inc. for the U.S. market and with Gordon Food Service Canada Ltd. for the Canadian market for the purchase and distribution of basic raw materials such as chicken, beef, produce, grains, rice, wraps, and beverages, in addition to such supplies as logo-imprinted paper goods. Freshii's international franchise partners were sourcing their ingredients locally, subject to accreditation from Freshii's supply chain team.

Dave O'Donoghue, Freshii's Dublin-based master franchisee for Ireland since August 2015, reported:

They say that retailing is all about "location, location, and location." They are missing the point. It is all about "partner, partner, and partner." That is the new paradigm. Without good partners in place, a restaurant chain is in no position to ensure common culture. It is particularly important for Freshii, which is trying to replicate its killer culture in each of its stores. Employee First, as I see it, is good strategy. It is good for business. I think it is also common sense.

An important element of Freshii's strategy was that the company considered itself to be "in the business of operating restaurants and not opening restaurants." It had stores in malls, airports, financial districts, and residential premises, occupying spaces between 300 and 3,000 square feet.¹⁰ For Freshii, its customer was the franchisee. It considered guests at its chain of stores to be customers of the franchisees.

In January 2017, Freshii launched an initial public offering (IPO) of \$125.35 million by offloading 10.9 million shares at \$11.50 each. The proceeds were to be deployed in financing the company's growth initiatives. Employees and franchisees were among the new shareholders. Their ownership reinforced their engagement with the company.

Freshii had revenues of \$16.1 million and net income of \$1.6 million for the year ending December 2016 (see Exhibit 3).¹¹ Most Freshii stores (43 per cent) were located in Canada, and 41 per cent in the United States. The densest concentrations of Freshii stores in urban areas were Toronto (where it had 50 stores) and Chicago (where it had 30 stores). All except four of its 244 stores were owned by franchisees. The four stores owned by Freshii were also serving as menu innovation test kitchens and training centres.

BUILDING A KILLER CULTURE

Dalziel had joined Freshii after a decade-long tenure with lululemon athletica inc. (lululemon), an athletic apparel retailer based in Vancouver, where Dalziel had been global manager of recruiting and talent. After graduating in psychology from the University of British Columbia, she had completed her master's degree in counselling from the City University of Seattle. The beginning of her tenure at lululemon in 2006 had coincided with the beginning of the company's consolidation of corporate culture as a source of competitive advantage. Dalziel could soak in the company's ongoing initiatives, of which she was often one of the drivers.

Corrin had been an admirer of lululemon as a company. He saw several similarities between lululemon and Freshii. Both were first-generation Canadian enterprises, and both had a set of core values that built principles. Corrin wanted to emulate lululemon in not only crafting a corporate culture but also sustaining it and elevating it to cult status.

Until Dalziel's appointment, the responsibility for Freshii's corporate culture and human resources (HR) had remained with the company's chief financial officer and, of course, the CEO. The team tasked with franchisee training, which had been limited to operational functions in the store, had been reporting to the company's chief operations officer.

The head office had a staff of 20 at the time. Most were millennials working in an open environment, where the shared workspace included standing desks for everyone. Staff would take part in group sessions, such

¹⁰ About 28 to 280 square metres; 1 square foot = 0.09 square metres.

¹¹ Freshii Inc., *Consolidated Financial Statements for the 52 Weeks Ended December 25, 2016 and December 2015*, accessed October 31, 2018, http://s21.q4cdn.com/658797549/files/doc_financials/sedar_filings/2017/mar/Audited-annual-financial-statements-English.pdf.

as sushi nights and weekly runs, in addition to getting together every Monday morning for what was referred to internally as a “huddle.” The leadership team would talk at the huddle about the priorities for the week, the direction that the company was heading in general, and about things that were not going right and therefore needed to be fixed. The open environment enabled everyone to generate new ideas, share mistakes and learn from them, and pushed everyone to be better than before by challenging the status quo. The CEO would often reward someone at a huddle as the most valuable player on the team, along the lines of a sporting event. The staff had unlimited paid vacation as a perk. Freshii HQ believed in giving people experiences that they would not otherwise be able to afford, such as an extended trip to where Freshii was opening a global store.

By September 2016, Freshii had 47 employees at HQ (see Exhibit 4). Dalziel’s own team consisted of 11 members: a people culture manager, a communications manager, two training managers, and seven store trainers. While putting together her team, Dalziel began addressing the lack of consistency across systems in the burgeoning chain.

One of the first things Dalziel did when she started at Freshii was to write down the company’s people values (see Exhibit 5). She then looked at how those values could be integrated with the founder’s guiding principles to serve as a benchmark for the franchising partners. She also started working on “playbooks,” as they were called in the company. The playbooks covered individual topics such as recruitment, onboarding, coaching, performance management, and workplace discipline.

As Dalziel described them,

At one level, our playbooks are very fine-grained. The procedure for slicing a tomato, for example, is laid down precisely. At another level, they are like guard rails. You can bump sideways but you have leeway in between. There is room for franchisees to make their own decisions while remaining within the boundaries set by the HQ. We also play by the 80:20 rule, especially in our international markets where things are less consistent. Eighty per cent of what the franchisees do would be according to the playbooks. But there are also local nuances to consider. Franchisees may need to change the menu or they may want to try some other technology. We accommodate those variations to the tune of 20 per cent. We have now digitized those manual binders, which were huge. People can access them easily and we can make course corrections in real time.

Simultaneously, Dalziel was developing an intranet portal called Communitii, designed to serve as a platform for the exchange of ideas among franchisees. Anyone in the ecosystem could ask questions on any matter affecting business and get answers in real time. The portal was aimed to be a leveller, breaking down hierarchies. Dalziel also started working on an online learning management system, called Freshii University, aimed specifically at training hourly wage employees across the global franchise. She was also working on other tools. A weekly newsletter, *What’s Freshii This Week*, updated store managers on corporate and departmental news at Freshii. A biweekly newsletter, *Freshii People*, was sent to the inboxes of store employees, providing sneak peaks of new menu items. Bulls-ii outlined a “focus of the week” idea to keep team members engaged and motivated. Back of House Board was used to communicate team goals, track sales, and share strategies and updates.

Over time, Freshii HQ shared weekly communications through videos, news, and alerts; conducted polls and surveys; and coordinated guest feedback analytics. Twice a year, it conducted a Happiness Survey of franchise partners. The survey was anonymous and allowed the franchise partners to rank various departments of Freshii in terms of support they provided. It also went deep into such questions as, “Is the CEO of Freshii doing a good job?” Another big part of feedback was the Franchise Partner Committee, an elected group of franchisees representing 40 different stores.

THE ISSUES BEFORE DALZIEL

Freshii had opened its first 200 stores within 11 years, at a rate faster than its North American peers. Domino's Pizza, for example, had taken 18 years to reach that number; McDonald's, 12 years; and Subway, 16 years.¹² Corrin was keen on ensuring that Freshii maintained its rate of growth without sacrificing the killer culture that was setting it apart. He noticed how so many of his peers were facing an existential dilemma: the faster they grew on the revenue front, the quicker they were retreating on the culture front. Corrin wanted growth and culture to feed into each other and not become exclusive.

In addition to the traditional franchise prototype, which had no limits to growth because of its asset-light model, Freshii also pursued non-traditional partnerships. For example, several North American retailers, including the Walgreen Company and Target Corporation, had selected Freshii to participate in tests as they searched to replace some of their existing in-store restaurants with a new offering, in their effort to drive traffic. Freshii was also negotiating strategic partnerships with food services companies such as Aramark Corporation and Sodexo, which had locations on university campuses, and in airports and hospitals. Freshii had also launched a pilot meal delivery program with a high school in Toronto to energize an even younger generation. The non-traditional partnerships were all meant to take the Freshii brand to the masses.

Dalziel needed to weigh in on the need for a common culture in the context of the changing strategic focus. Freshii was in the middle of transforming from a restaurant brand to a health and wellness brand. Although it had been operating in the health and wellness space since the beginning, Freshii was becoming less and less of a restaurant due to trends such as digital ordering on the part of consumers and the growing propensity for takeouts. The business of catering was likely to become bigger than the restaurant business. The imminent deal with Air Canada would give Freshii a different identity altogether.

Corrin described the challenges of Freshii's evolving identity:

As we begin to build a larger footprint outside of our restaurants, I see a different culture dynamic going on. The new team members would not be wearing the Freshii uniform. They would be wearing the Walmart apron or the Air Canada flight attendant outfit. They do not represent Freshii the brand per se. We just happen to be riding on the brand that they are working for. How do we coax them to romance our food, sell our food, and promote our food? How do we make sure that an Air Canada flight attendant has at least enough excitement and knowledge about our brand to be able to represent it? We need to figure it out.

For the long term, Dalziel needed to find ways of ensuring that Freshii's corporate culture would become a competitive advantage. Any competitor could reverse-engineer and replicate the recipes. But no competitor could reverse-engineer and replicate Freshii's corporate culture. Focusing on its corporate culture was also crucial in other ways. It was a powerful way to build and sustain a corporate brand. It would enable team members to make decisions easily and quickly because of a shared understanding of the right thing to do. Big, strategic decisions, as well as smaller, daily ones, could be made with confidence and commitment. A strong corporate culture would also be the most effective way to offset the costs and complexities of managing a restaurant business, which was characterized by high employee turnover rates and limited employee engagement. A strong corporate culture that connected employees to a better purpose would be a better incentive than free food and benefits. It would also help Freshii become an employer of choice, serving as a magnet for new crops of committed hires.

¹² Freshii Inc., *Prospectus; Initial Public Offering and Secondary Offering*, January 25, 2017, accessed October 31, 2018, <https://www.sedar.com>.

James Fowler, a regular customer at Toronto's University Avenue Freshii store, reported:

The food is of course the big draw at Freshii, but I go there because the counter staff treat each customer as special. The way they greet you, stay attentive to your needs, and manage your expectations is distinctive. It reminds me of Starbucks. The consistency of its customer service, and of course of the quality of Starbucks coffee, is amazing. But I have also seen restaurants start off on a distinctive appeal but lose it all as quickly as they expand. I think that will be the biggest challenge for Freshii—retaining its spark, its culture. How should it ensure that for every two steps forward with its growth, it will not go a step backward with its culture? That is the litmus test. It will not be easy. But it'll be fun to watch how it shapes up for Freshii in the long run.

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EXHIBIT 1: NUMBER OF FRESHII INC. STORES IN 2016

#	Country	Number of Stores
1	Canada*	104
2	United States	99
	Sub-Total North America	203
1	Aruba	1
2	Austria	1
3	Colombia	12
4	Ecuador	1
5	Guatemala	2
6	Ireland	4
7	Kuwait	4
8	Mexico	1
9	Netherlands	2
10	Panama	2
11	Saudi Arabia	3
12	Sweden	4
13	United Arab Emirates	4
	Sub-Total International	41
15	Total	244

Note: *The Canadian stores included four company-owned stores.
Source: Company files.

EXHIBIT 2: FRESHII'S FIVE GUIDING PRINCIPLES

1. Talk is cheap. Execution sets you apart.
2. Launch fast, fail fast, iterate faster.
3. Numbers rule. If you can't measure it, you can't manage it
4. Build a company with a killer culture, not a culture that kills a company.
5. Pick your battles.



Source: Company files.

EXHIBIT 3: FRESHII'S FINANCIALS, 2013–2016 (IN \$US THOUSANDS)

	2013	2014	2015	2016
Franchise revenue	3,314	4,998	7,678	12,992
Company-owned stores revenue	4,393	4,002	3,424	3,126
Total revenue	7,707	9,000	11,102	16,118
Cost of sales	3,045	3,148	2,874	2,664
Selling, general, and administrative expenses	4,068	4,168	4,843	9,670
Depreciation and amortization	144	85	155	284
Others	—	—	5,892	75
Total costs and expenses	7,257	7,401	13,764	12,693
Interest	245	243	88	642
Foreign exchange	—	134	41	383
Income tax	145	206	(1,063)	806
Net income	60	1,016	(1,728)	1,594

Source: Company files.

[illegible]

Source: Company files.

EXHIBIT 5: FRESHII'S PEOPLE VALUES



People at Freshii...

Live Without Regret

We are true to our word. We do what we say we will do
when we say we will do it. We live with integrity.

Try New Things

We take risks. We innovate. We seek new experiences.
We are always learning.

Are Good to One Another

We are considerate of our guests. Our teammates.
Our environment. Ourselves.

Driven to Be Better

We are always pushing ourselves to the next level.
We strive for more. We are stretching what's possible.

Live Energized Lives

We are energized by the things we do, see, and eat
everyday. We are fuelled by Freshii.



Source: Company files.