

# Dog Haus 'going with flow' in virtual kitchen test

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Just days into Dog Haus' launch at the new Kitchen United mobile-ordering-only space in Chicago and franchisee Jesse Koontz was doing about \$800 in delivery orders per day, with one Friday spiking to \$1,500.

"We need to double that to make it work," said Toni Siprut, his girlfriend and business partner and the one with restaurant operating experience. Koontz joined the Marines after high school, then earned an accounting and finance degree followed by a two-year consulting stint for KPMG. "I was looking for something to invest in" and came upon Dog Haus when visiting a Marine Corps buddy in California.

Today Koontz is on the front lines of an experiment for Dog Haus and Kitchen United, the Google Ventures-backed operation that plans to put virtual kitchens—in this case 19,000 square feet of delivery-only kitchens, no seating or guest space—in 25 locations in 10 markets across the United States by the end of 2020.

Koontz considers his 350-square-foot Kitchen United location a "release valve" for his bricks-and-mortar Dog Haus restaurant nearby, in the Lincoln Park neighborhood, which is on pace to post \$1 million in revenue this year.

The regular rent at the virtual kitchen is \$6,500 a month, but he signed for six months with two months free and four months half rent. Kitchen United provides equipment, maintenance, cleaning crews and delivery platform management, with the delivery apps getting 20 to 30 percent of every order. Best of all: "They do all your dishes at night," he says.

By contrast, rents in the River North neighborhood can run up to \$20,000 a month, he said. Plus he can staff the virtual restaurant with one person rather than the five to six people per shift at the real restaurant, which does about \$5,000 a week in delivery orders.

"This whole venture came up very, very quickly," he said. "This whole process has been going with the flow."

Andre Vener, CEO of Dog Haus, said a chance meeting at their kids' school for Dog Haus and Kitchen United execs, both based in Pasadena,

California, led to a visit to the test concept and ultimately the deal.

"We wanted to see the data about how it will work. We were just lucky to be one of the first people to know about this stuff," said Vener. Dog Haus committed to the next 25 Kitchen United locations slated to open.

Vener sees several promising aspects of the concept, including one that is a good problem to have: "We can go into one of these Kitchen Uniteds and help with the overflow of the orders. And we can accommodate all the diners," he said.

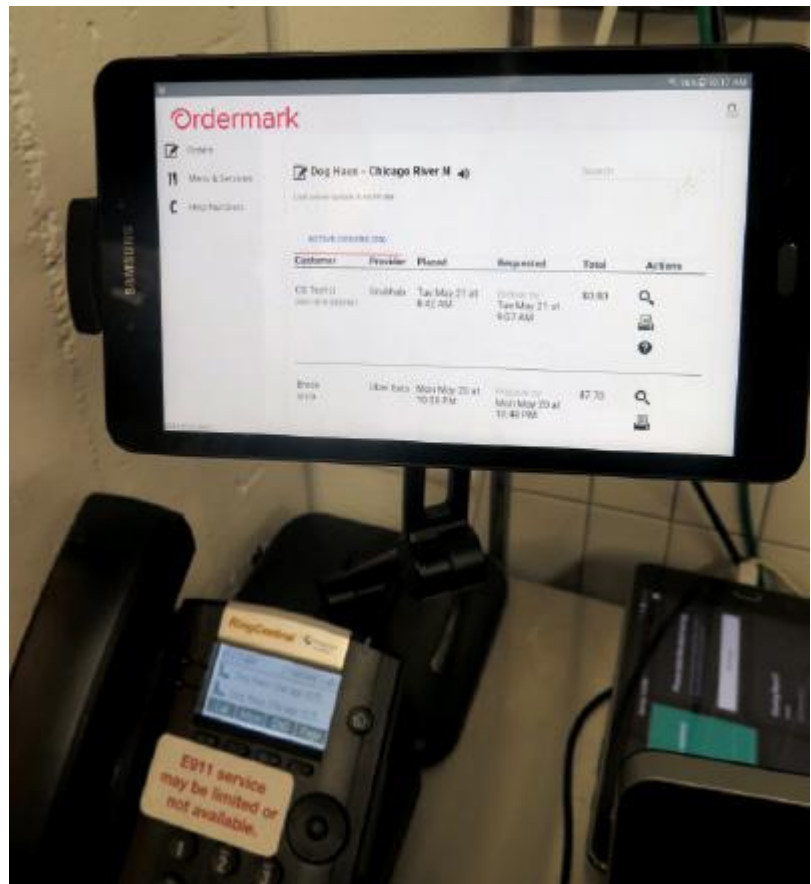
Another is entering new markets with less risk than a traditional restaurant. He cited Atlanta, one of the 10 markets where Kitchen United openings are planned, as an example. "We do the marketing, we do the branding and we can test out the market," he said. "Then once we know it's up and running and we have demand on the food we can look at a multi-unit operator" to sign.

A tricky part of the arrangement is how to structure franchise agreements, and in Dog Haus' case that's left to attorney Barry Kurtz of Lewitt Hackman. "He makes contracts that are win-win," said Vener. "It's not protecting us, the franchisor, and it's not beating up the franchisee."

Kurtz said he recommends franchisors bring in a current franchisee rather than a new one, when adding a virtual restaurant to the deal, and advises them to be careful about violating an owner's territory.

"We had the same situation when the internet became popular," he says, and believes it will be best to have separate contracts for the delivery-only operations. "This is going to be evolving over time."

He adds some philosophy about entering a new type of business: "I've learned the contracts can't be so horribly one-sided that franchisees feel like prisoners in their own business," he said. "It's a cliché but at the end of the day they're your partners, and if you push your partners around you're going to have a problem."



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