# February 2006 IN SIGHT FOR RESTAURANT EXECUTIVES

Vol. 11, No. 2/\$12.50

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El Pollo Loco's interiors go from drab to dramatic. Page 22

Transforming Bruegger's menu into fast casual.

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# UNDER NEW OWNERSHIP

New cash in hand, Claim Jumper tackles national expansion.

Page 39

Craig Nickoloff, founder and CEO, Claim Jumper





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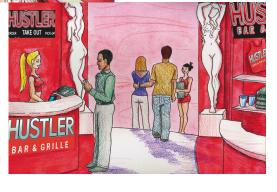
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### BRIEFING BOOK

FIRST LOOK

### Hustler Plans to Take on Hooters in Casual Dining

Hustler Bar & Grille will debut in October in Las Vegas.



ecause one heavily themed casual-dining chain with scantily clad servers could never be enough, Larry Flynt's *Hustler* is the focus of a concept debuting this fall in Las Vegas.

Brad Saltzman, president of Gerald Bernard Hospitality, licensee of Hustler Bar & Grille, says Flynt is very involved in creating the concept and will make appearances at the units.

When comparing Hustler to other restaurant concepts, Saltzman says, "Decorwise, equate it with Cheesecake Factory. The energy and excitement will be what Hard Rock Cafe used to be." That energy and excitement will come from the loud music, sports on TVs, *Hustler* memorabilia

sans pornography, people-watching and the Hustler Hunnies. Who won't be the equivalent of Hooters girls, he adds.

"They will be like Hooters girls with a background in hospitality," Saltzman says.

The large menu, created by a former Starwood Hotels & Resorts executive chef, will offer burgers, ribs, chicken, salads, fish, sandwiches and more; many items have a Southern influence. Hustler Bar & Grille is aiming for an average check of \$15 to \$18 at lunch and under \$25 at dinner. Food should make up 65 percent of sales; alcohol, 30 percent; and retail, 5 percent.

At 3,700 square feet, the Las Vegas unit, scheduled to open in October, will be smaller than the ideal unit (5,000 square feet). But thanks to the city's flexible dining schedule, more-frequent table turns will enable it to garner \$5 million in sales, Saltzman predicts, while the expected AUV for other locations is \$3 million.

Saltzman expects to open two to four outlets in 2007. He is scouting locations in Los Angeles, Miami, New York and Nashville, Tenn., with high foot traffic, as in tourist areas and trendy neighborhoods. Future Hustler Bar & Grilles might colocate with Hustler Hollywood shops.

### MARKETING

### **Subway Begins Playing Games**

To reach young men beyond traditional advertising, Milford, Conn.-based Subway is placing advertising within video games.

While ads in video games are not unique, San Francisco-based Engage In-Game Advertising places the ad in the game within the specific markets Subway wants to target. Engage's research finds that among men 18 to 34 years old, TV-watching declined 12 percent in 2004, and time playing video games increased 20 percent.

According to David Smith, vice president of business development for Engage, the advertising method is effective because it contextually supports the game.

Subway's goal was to build awareness of its \$2.49 daily specials among these heavy fast-food users. A popular online action game showed a billboard on a building promoting the specials. After three weeks, the ad had reached 31,000 unique viewers. It doesn't quantify sales, but the chain experi-



enced an increase in sales in the markets where the ad ran, such as Las Vegas, San Francisco and Sacramento, Calif. A post-campaign survey showed a 94 percent ad recall among the target demographic.



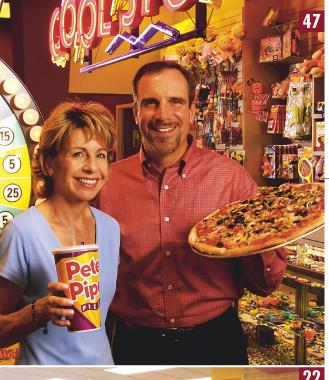
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# Chain Leader Nol. 11, No. 2 February 2000

### STORYBOARD

### 20 Sportsmanlike Conduct

Cousins Subs has enlisted ESPN's Dan Patrick to convey the improvements at the chain. In its latest ad campaign, Patrick maintains his professional composure as he discusses the serious differences between Cousins and other sandwiches, while also talking about the fictitious, less serious tasks the ad agency had asked him to do like wearing a chicken costume. Early feedback suggests sales are up single-digits since the ads began airing in October.

By Margaret Littman

### RESTAURATOUR

### **22** Color Commentary

To appeal to new customers without alienating its core demographic of Hispanic families, El Pollo Loco redesigned its interior from drab to dramatic. The new decor evokes freshness and the chain's Mexican heritage with a rich color palette, an open grill, a mix of banquettes and moveable two-tops, handcrafted tiles, and a salsa bar with house-made salsas. The new freestanding units are averaging \$1.5 million in sales a year.

By Lisa Bertagnoli

### TOQUE OF THE TOWN

# 29 Bagel Baker,Sandwich Maker

As Bruegger's transitions from bagel bakery to fast-casual cafe, Executive Chef Philip Smith has broadened the menu to include more artisanal and healthful fare. He has launched tossed-to-order salads, sandwiches with upgraded ingredients and adventuresome flavors, and more indulgent desserts. Sales started to pick up speed in 2005, with monthly volumes averaging 2 percent higher than the prior year and fourth-quarter same-store sales 5 percent higher than the same period in 2004.

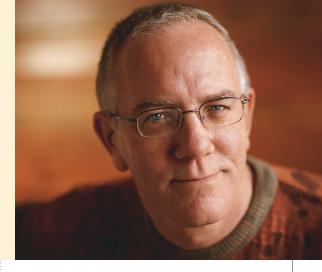
By Monica Rogers

### COVER STORY

### 39 Under New Ownership

CEO Craig Nickoloff and his team are ready to turn Claim Jumper into a national brand now that the 38-unit chain is in the hands of private-equity owner Leonard Green. With high volumes, strong box economics and low management turnover, Claim Jumper will test its concept in the Midwest while continuing to expand in its Western markets. As it prepares for growth, it will reduce the size of new restaurants and pick up purchasing efficiencies to boost the bottom line. Claim Jumper expects systemwide sales to grow to \$290 million this year.

By David Farkas



### GROWTH STRATEGY

### 47 Playing Both Sides

Peter Piper Pizza is redefining its pizza-and-gaming concept as fun for all ages. It has enhanced its menu with new items and ingredients, bought 500 new games and launched a new marketing campaign. The chain expects the multipronged strategy will help it expand beyond its Southwest core market as it opens 14 units in 2006 and 23 more in 2007. **By Donna Hood Crecca** 

### THE LEARNING ORGANIZATION

### 53 Skillful Leadership

Restaurant industry executives shared how they successfully execute and grow their concepts at the second annual *Chain Leader LIVE* Nov. 16-18 in Dallas. The conference covered topics such as expanding an up-and-coming chain, restaurant design, menu development, human resources and successful leadership.

By David Farkas

### DEPARTMENTS

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## How to Grow to 100 Units

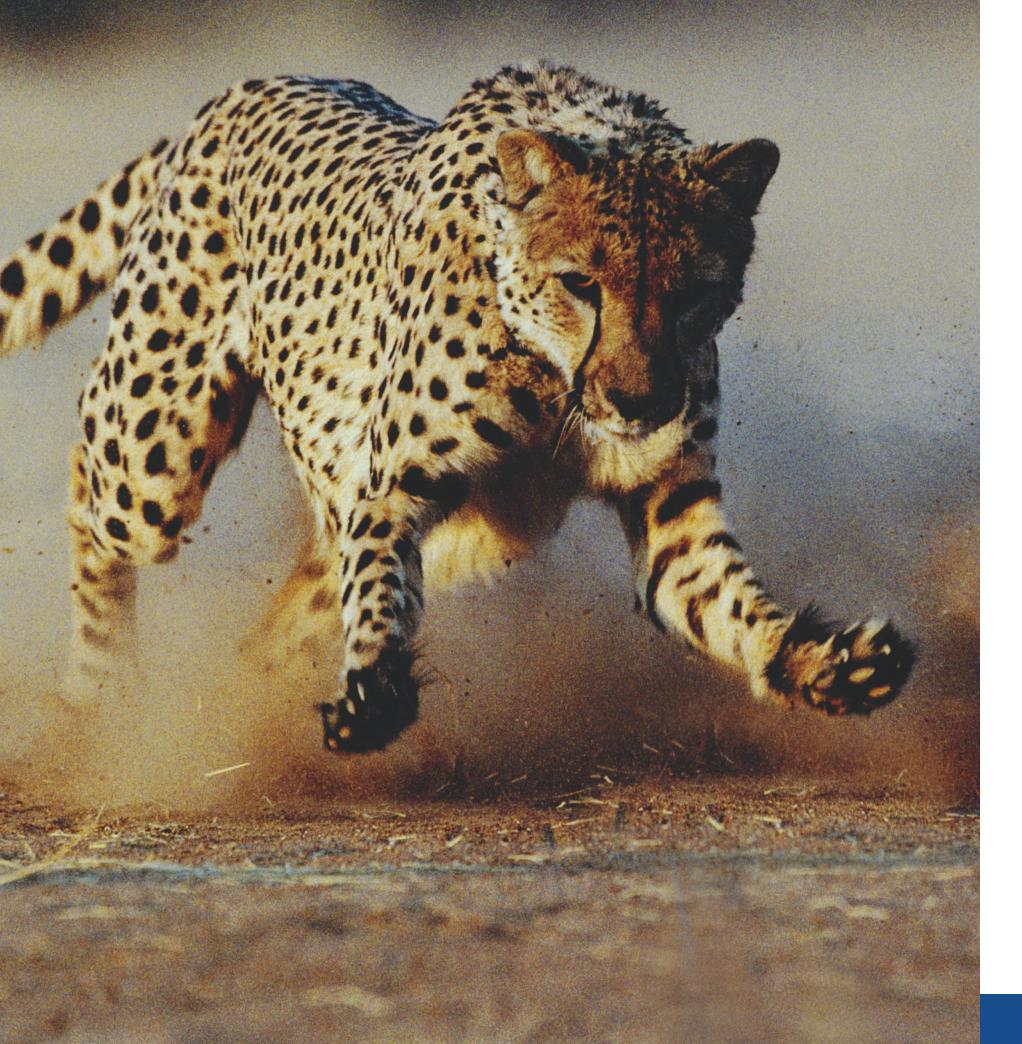
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- Weekly blog from upstart Pam Felix, California Tortilla.

### Plus

- Coverage and pictures from Chain Leader LIVE.
- Senior Editor David Farkas muses about the restaurant industry in his blog, Dave's Dispatch.
- Daily news.
- Archived stories from the pages of Chain Leader.

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### Develop a Deep Bench

f I stepped off a curb, got hit by a bus and died tomorrow, *Chain Leader* would be in trouble. Of course, the rest of the senior editorial staff is more than capable of getting an issue out without me. But get them together, which is difficult enough because they're in three different cities, and there would still be information gaps. They still wouldn't know "where all the bodies are buried."



This is not meant to make me sound important or necessary or anything. And it's not like I don't communicate with anyone. It's just an indication of one of the management skills I need to work on: helping develop other people.

### **Follow the Leaders**

What made me think of this was the recent annoucement that this

summer Applebee's Chairman and CEO Lloyd Hill will leave the CEO responsibilities to an unnamed-as-yet successor (presumably President and COO Dave Groebel). Joe Lee handed over the CEO title at the end of 2004 to Clarence Otis, and effective Dec. 31, the chairman title as well. At Morton's, Chairman and CEO Allen Bernstein passed the baton to Thomas Baldwin at the end of the year.

A succession plan is important because it gives your best people the hope and expectation for a future with your company and opportunities to grow, improve and make more of a contribution. All of which are likely to keep them there.

A plan in the executive suite is not only a good example for other layers of management, but a strategy that should be encouraged or even mandatory companywide. Throughout the organization, teams would be able to replace experienced workers who leave with those who are ready for new positions. It would allow you to look forward to make sure the organization is grooming a

diverse management and executive pool.

And it shows your investors and other shareholders that you're focusing on the future of the business and not only on short-term gains. And that you're realistic about your own mortality.

### It Don't Come Easy

Succession planning isn't easy. It requires you, and all of your managers, to humbly acknowledge that there might be others who could do your job—maybe even better than you. It means you have to know where the company is headed and what skills the people who will take it there will need. You have to honestly evaluate the people you work with now; increase your retention methods, such as creating developmental opportunities for high-potential employees until new jobs open up; and make sure employees have clear development paths and roles. You might need to invest in technology to help you track who you're trying to fit where. And it never ends; it requires an ongoing commitment.

Get help from your peers in the executive ranks, especially in human resources. Like the strategic vision of your company, succession planning is not a one-man job.

It will be worth it because the best companies use the recruitment and retention of quality leaders as a key to sales, profit and geographic growth.

This week at Reed Business Information we're wrapping up our 2005 reviews, each evaluating our performance against goals we set this time last year. So it's a good time for me to refocus my efforts on preparing the magazine and staff for my departure. Though I hope it's a long way off.

Who will fill your shoes when you're gone? Who will fill that person's?

MARY BOLTZ CHAPMAN, EDITOR-IN-CHIEF

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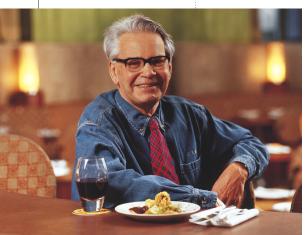
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## Reform Policy

he Sarbanes-Oxley Act, passed by Congress in 2002, was supposed to help protect investors from corporate abuse. Yet this corporate governance act, quickly passed in the wake of scandals such as those at Enron and WorldCom, has not benefited the "little guy" to the degree that was expected. Instead, Sarbanes-Oxley mandates have cost public companies too much time and money.



The act makes financial reporting more complicated than ever before. Many corporations have had to divert employees from their core business. In effect, it has inhibited job growth and resulted in hidden costs for business, workers and consumers.

### **Bad for Business?**

Sarbanes-Oxley is supposed to be a cure for cor-

porate misbehavior, but instead it punishes American businesses as a class. And the mandates are most burdensome for small and medium-sized companies. If smaller companies opt to go private, or not enter the public market in the first place, how much entrepreneurial spirit will go untapped because it is unfunded?

With the appointment of Christopher Cox last July as chairman of the Securities & Exchange Commission, things might improve on Wall Street. They certainly can't get any worse.

Cox, 52, a former California congressman for 17 years in Orange County and a former securities lawyer, knows the ropes. But so did his predecessor, William Donaldson, who tried to push business regulations over the objections of prominent Republicans and the White House.

Cox had appeared to be more understanding of business issues and concerns. But on Jan. 4, the Securities & Exchange

Commission issued standards about when and how financial penalties would be imposed for wrongdoing, standards that some don't consider business friendly. They also seem to make official one of Donaldson's informal principles.

### **Tough Enforcement**

Cox told the *New York Times*, "Penalties on corporations are an important part of our enforcement program. They enable the [SEC] to achieve deterrence, and we believe it is essential to our mission of investor protection." The commissioners said they would seek penalties when a company profited from a violation and when punishment was necessary to deter violations. But the SEC commissioners indicated they would try to avoid hurting shareholders.

Another item on the agenda of Cox and the SEC: reforming disclosure rules for executive pay. The commission was expected to propose new regulations in January. Time will tell if they make accounting easier or even more complicated.

### Change Is Good

Today's accountants do need guidance. And unfortunately, recent history has shown that corporate America needs a system of evaluating internal financial controls, review of these controls, and procedures to prevent and punish fraud.

But the Sarbanes-Oxley Act is burdensome and expensive, and it urgently needs revamping so that it makes sense, is fair to public companies and their shareholders, and does not stifle business growth.

The public market needs accounting guidance, but Sarbanes-Oxley is too burdensome.

CHARLES BERNSTEIN, EDITOR-AT-LARGE

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### **Head Over Heels**

Private-equity firms have a new crush — your restaurants.

**BY DAVID FARKAS** 

rivate-equity firms must love restaurant companies. They've been buying them at a record pace since mid-2004. Dunkin' Donuts, Claim Jumper, Taco Bueno, Garden Fresh, Captain D's and Perkins, to name a few, are now baubles in their portfolios. Could your company be in their sights? *Chain Leader* recently asked San Francisco-based investment banker Damon Chandik of Piper Jaffray, who shepherded five restaurant M&A deals in 2005, to explain how to handle a first date.

### First off, why are financial buyers so interested in restaurants?

It's driven by several factors. One is they

understand the industry is a large piece of the economy and that demographic trends are moving in its direction. There's also a significant amount of capital out there to put to work. Financial buyers also realize the industry can provide some downside protection in the form of stable cash flows.



### What are their expectations?

They are looking to make an investment they can hold for four to five years and then exit in one of several ways: through

an IPO, sale to financial sponsor or strategic player, or perhaps recapitalize the company and take on more debt and receive a large dividend because the company is worth more.

### What kind of return on investment do private-equity firms expect?

Historically, it's been 20 percent plus on investment, with the emphasis on plus. But I'm hesitant to put an exact number on this because each has its own return hurdle

requirements, though they are looking for more than you can get in the debt markets.

### Do sellers have unrealistic expectations of the value of their companies?

It is difficult for sellers to know how someone from the outside will evaluate their company. It requires an understanding of all facets. Generally speaking, sellers don't know how restaurant companies are valued by private-equity firms. We typically spend a fair amount of time educating our clients so that they have an informed but realistic valuation perspective.

### What should a seller look for in an investment banker?

Find someone with recent restaurant experience, ideally a lot because they will know what kinds of questions come up—classaction suits in California, comparable-store sales, worker compensation and other industry idiosyncrasies. Don't forget to talk to others in the industry who have done transactions.

### Can sensitive issues that a seller might not want to reveal hamper a deal?

Throughout an M&A process, the seller will need to disclose its issues. The buyer community is very savvy, and everything is going to get out at the end of the day, although you give information in stages throughout an M&A process.

### How are fees determined? Are they negotiable?

Fees are typically a percentage of sale price. You can do it as a fixed percentage or take a ladder approach—it's x-percent for this [price] range. In the end, they are negotiable, and the seller pays. The buyer will have his own fees because they have lawyers and accountants. Everybody takes care of their own fees.

# Savory



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### UPSTARTS



The third oldest restaurant in Los Angeles, Barney's Beanery takes pride in its beat-up decor and simple but hearty comfort food.

### **SNAPSHOT**

CONCEPT

Barney's Beanery

### PARENT COMPANY

Bean Ball, West Hollywood, Calif.

UNITS

2

2005 Systemwide Sales

\$10 million

2006 Systemwide Sales

\$15 million (company estimate)

AVERAGE Unit Volume

\$5 million

AVERAGE CHECK

\$12.50; \$20 with alcohol

EXPANSION PLANS

1 in 2006; 20 to 25 in 10 years



### Hitting the Road

Barney's Beanery finally takes its 85-year-old roadhouse to new markets. By Maya Norris

n the glitzy and glamorous Los Angeles dining scene, where adventurous cuisine and high design rule, Barney's Beanery is an anomaly. Founded in 1920, the legendary roadhouse restaurant and bar has managed to stand the test of time by simply serving up large portions of affordable comfort food in a scuffed-up, rowdy environment, while attracting celebrity regulars from Janis Joplin to Quentin Tarantino along the way.

Now co-owners David Houston and Avi Fattal plan to duplicate the West Hollywood landmark in the rest of California and nationwide.

"Some of the Barney's appeal is, we have a kind of low-expectations vibe to the place," says Houston, who along with Fattal also owns Q's Billiard Clubs, a three-unit chain of pool halls in Los Angeles. "We're not saying that we're Spago. We're not saying its fine dining or anything like that. It's Barney's. It's fatty food served well and warm."

### Same Old, Same Old

When the duo purchased the restaurant in 1999, they decided not to mess with Barney's hallmark large menu and retro, wornout decor.

The 700-item menu includes breakfast available all day, burgers, chili, hot dogs, sandwiches, barbecue ribs and pizza as well as more than 125 domestic and imported beers with 40 available on tap. The average check is \$12.50, but customers feeling extravagant can order the \$175 Barney's Champagne Breakfast, which consists of a giant chili cheese dog and a bottle of Dom Perignon.

The decor is a hodgepodge of "junk and chaos," Houston says. Multicolored striped

booths, dark wood walls and exposed steel beams provide the backdrop for license plates on the ceiling, tables decoupaged with photos and articles about celebrities and politicians, and pop culture memorabilia like magazine covers, alcohol logos and old road signs.

### Change Is Good

While the essence of Barney's has remained, Houston and Fattal did make some changes when they came on board. They added more TVs to better accommodate sports fans, improved the sound system and built an outdoor patio after the state's smoking ban went into effect.

Most importantly, Houston and Fattal focused on improving customer service. It continues to be the company's ongoing challenge as it grows. Barney's is currently working on standardizing its training procedures, putting them on video, elongating the training process and hiring more mystery shoppers.

Houston and Fattal credit their changes for Barney's improved balance sheet. Average unit volume tracks at \$5 million, up from \$1.5 million in 1999. The company posted \$10 million in systemwide sales in 2005 and expects to generate \$15 million in 2006.

Barney's opened its second unit in August 2004 in Santa Monica and plans to open another in March in Pasadena, which will include a double-decker bus in the unit. As the company investigates locations in San Diego, San Francisco and Las Vegas for its next few stores, it is looking for sites in metropolitan areas with a mix of locals, businesspeople and tourists.

Barney's plans to have 20 to 25 units nationwide in 10 years.



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# color commentary about its product line.

# Cousins Subs signs a sports anchor to give Sportsmanlike

By MARGARET LITTMAN

arry Weissman had already accomplished a lot since he joined Menomonee Falls, Wis.-based Cousins Subs three years ago. As vice president of marketing, he helped freshen the QSR concept, revamping everything from store design and menu boards to service initiatives.

"This was a chain in dire need of some attention," Weissman remembers. "For a long time, it was the only player in town, but then other competitors came in, and they were newer and sharper and taking business away."

His efforts did spice up the stores, the menu and the staff, but they didn't seem to reach customers. When the chain began surveying lapsed users, Weissman was disappointed to hear them retelling tales of experiences from more than four years prior, things that wouldn't—and didn't happen at the new and improved Cousins Subs. "We had these messages in-store, but no one was listening," Weissman explains. "How do you tell people? That's where we started to run into problems."

So the company launched a new ad campaign last fall to convey that Cousins' sandwiches were stacked with more protein than those of their competitors and frequently beat those from Quiznos, Subway and elsewhere in taste tests.

"We needed to find a way to meld those two messages. We decided we needed to find somebody to be our outside sub expert because people weren't listening to us. We needed to create a personality for the brand," Weissman says. "But we could not afford an A-list celeb." Chain Leader estimates Cousins' 2005 ad budget at \$1.7 million.

### Talent Search

Weissman turned to Noble & Associates. the Chicago-based ad agency that had been working on the Cousins account since Weissman joined the company.

"We needed to be deliberate with our

### "Serious Subs" Length: 30 seconds



1. Dan Patrick: When Cousins Subs asked me to talk about their subs. the ad agency had some pretty strange ideas.



2. I am not getting in that thing.



3. I can't say that word on TV.



4. This somebody's fowl joke?

spending and needed to build credibility," says Kevin Beauseigneur, senior vice president and creative director at Noble & Associates.

Cousins wanted a pitchman who would convey how "serious" the chain is about its sandwiches. The team deemed ESPN anchor and reporter Dan Patrick as the right face for the brand.

"Dan was the perfect fit because Dan's brand resonates very well with Cousins' target audience," Beauseigneur says. "Dan brought that credibility. He is very serious, and his brand is very serious."

Before having him sign on the dotted line, Noble tested Patrick's recognition among Cousins' 18-to-49-year-old demographic. He tested well with the entire group and, surprisingly, had the same recall for female customers as for male customers and franchisees. Patrick has a radio call-in show that airs in the Milwaukee area, among other markets, helping his awareness in Cousins' geographic markets. The chain is focusing its growth on the 400-mile radius of its Milwaukee home base, which includes Detroit, Chicago and St. Louis. (The exception is Arizona, where the concept has 17 units.)

While Patrick wasn't initially familiar with the Cousins brand, Beauseigneur says that he and his four kids quickly became hooked: "He was a great sport. He brought a lot of energy to the shoot," which was held on a weekend because of Patrick's ESPN schedule.

### **Serious Differences**

In the TV spots, which began airing in October, Patrick maintains his professional composure as he highlights what the chain considers the serious differences between Cousins and other sandwiches, while also talking about the fictitious, less serious tasks the ad agency had asked him to do like wearing a chicken costume.

Since fall, Patrick has appeared in free-standing insert coupons in newspapers, on the Cousins Web site, in stores and on the radio, as well as in the television commercials. The company will add at least three new TV spots with Patrick this year, including one in February hawking limited-time offers. The creative is designed in a modular way so it is easy to expand. The contract Patrick signed is for several years, and Cousins intends to use him in all its communications efforts during that period.

The Patrick campaign is still new enough that Weissman hasn't been able to calculate results, but he says early feedback suggests sales are up single-digits since the ads began airing. All told, December 2005 was the 12th consecutive month of positive comps for the \$70 million chain, progress Weissman attributes to all the efforts over the past three years, not just the advertising.

Such stats have allowed Cousins to move forward, albeit cautiously. The chain may add as many as 20 units in 2006, all within that radius of Milwaukee. "We are not looking to be the next McDonald's," Weissman says.

### **SNAPSHOT**

### CONCEPT

Cousins Subs

### HEADQUARTERS

Menomonee Falls, Wis.

### UNITS

138 franchised, 23 company

### 2005 Systemwide Sales

\$70 million (company estimate)

### AVERAGE CHECK

\$7.50

AVERAGE Unit Volume

\$435,000

### 2005 AD BUDGET

\$1.7 million\*

### AD AGENCY

Noble & Associates, Chicago

### EXPANSION PLANS

15 to 20 in 2006

\*Chain Leader estimate



5. Let's be serious. Because Cousins is a serious sub.
Look at these guys.
They're huge.



And that bread, baked fresh right in the store.Piled high with the finest meats and cheeses.



7. Cousins is the best, so let's be serious.



8. Cousins Subs: Better bread. Better subs.





Here's the downside of asking customers what they think: Those opinions aren't always easy to hear.

While conducting customer research, El Pollo Loco executives learned that a catered event such as an office lunch provided many non-

Hispanic customers with their first taste of El Pollo Loco's signature marinated, grilled chicken. Those same customers said they would never set foot inside an El Pollo Loco restaurant.

"They didn't feel comfortable going into

the restaurant," says Steve Carley, CEO of the Irvine, Calif.-based quick-service chain. The drab, brownish interior "looked too downscale," he says.

El Pollo Loco had a clear challenge: to make the interiors as vibrant and appealing as the food. Executives responded by launching a two-year design process that resulted in an interior that replaces blah brown with rich purple, fuchsia and yellow, a palette found in the residences and public spaces of Mexico and other Latin American countries.

BY LISA BERTAGNOLI



### **SNAPSHOT**

### CONCEPT

El Pollo Loco

LOCATION

Chicago

OPENING DAY

Oct. 10, 2005

AREA

2,450 square feet

SEATS

60

AVERAGE CHECK

\$8.89

UNIT VOLUME

\$1.2 million\*

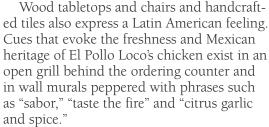
### EXPANSION PLANS

7 to 10 new company stores per year

\*Chain Leader estimate

Customers can see the grill from the ordering line; the view adds a freshness cue to the prototype.

Murals communicate the colors of the brand and include freshness messages such as "flame grilled."



The new look is comfortable as well: Booths, banquettes, and moveable chairs and tables accommodate small groups and the families with which El Pollo Loco is popular. A small salsa bar, stocked with five housemade salsas, lets patrons make their food as spicy as they want.

### A Balancing Act

El Pollo Loco's first location was in Mexico; the chicken's marinating and grilling process is a Mexican recipe. So the in-house design team sought to replicate the feeling and colors of Mexico in the new design.

The team, including Carley, Chief Marketing Officer Karen Eadon, Vice President of Development Brian Berkhausen and Director of Development Brian Charmichall, created the new prototype. For assistance, they called on Maite D'Amico, president and chief creative officer at Cruz Kravitz, El Pollo Loco's Hispanic advertising agency.

"Color was lacking in the interior," says D'Amico. "In Mexico, color is everywhere. Architecture, food, textiles—every expression has to do with really brilliant colors."

The design team also sought "the sweet spot between fast casual and quick service" to attract new users yet not alienate the Hispanic families that are El Pollo Loco's core customers, Charmichall says.

The team found the balance by mixing traditional quick-service and contemporary fast-casual touches. As in quick service, customers queue up to order their food; as in fast casual, their orders are brought to their tables. The quick-service-style menu board hangs above the counter, while the salsa bar feels fast casual. The seating is mostly banquettes and moveable two-tops. But in bigger stores, a seating mix of 30 percent booths adds a fast-casual ambience. Some finishes, for instance the light-wood tabletops and









(Clockwise from top I.) Flexible seating accommodates families — an important El Pollo Loco demographic — and smaller groups as well.

The designers call the interior a delicate balance between quick service and fast casual.

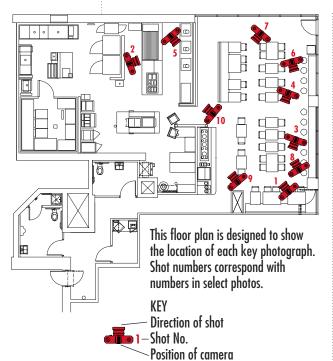
A plum-colored awning echoes the bright interior palette, which mimics the colors of Latin American architecture.

Wood tabletops and chairs and handcrafted tiles also express a Latin American feeling.





## El Pollo Loco's new colors are "food colors" but also evoke the chain's Mexican heritage.



quarry-tile floors, are quick-service touches. However, the brilliant color palette, plus custom-made wall graphics, look more like fast casual.

The wall graphics are key to the new look, Eadon says. The chain hired a Los Angeles art student to create a master mural; sections of the mural cover a restaurant's walls as space permits. For instance, because the endcap unit in Chicago's Logan Square neighborhood has little wall space, the restaurant contains only three sections of the mural.

### Kitchen Magicians

The new interior helps El Pollo Loco, now at 191 franchised and 14 company stores, prepare to add 130 new units by 2009, primarily via multiunit franchise agreements.

A newly engineered back of the house will help as well. Previously, El Pollo Loco's chicken was handmarinated for an hour and then cooked over an open flame. "It took six months to train a cook," Carley says. While the process resulted in good-tasting chicken, it was too labor-intensive for franchisees.

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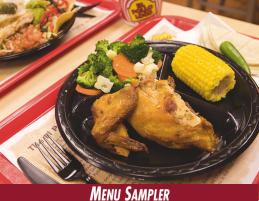
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### BURRITOS

Twice Grilled Burrito, with chicken breast, cheese, guacamole, sour cream and pico de gallo, \$4.99

### Pollo Bowls

Chicken Caesar Bowl: chicken breast, romaine lettuce, rice, creamy cilantro dressing, cotija cheese, pico de gallo and tortilla strips, \$3.99

### Pollo Salads

Tostada Salad: chicken breast, lettuce, pinto beans, rice, cheese, sour cream and pico de gallo in a tostada shell, \$4.79

### LOCO ADDITIONS

Chicken Tortilla Soup, \$2.99 Taco al Carbon, \$1.29

# New freestanding El Pollo Loco units average \$1.5 million a year; endcaps average \$1.2 million.

SRE, a Columbus, Ohio-based kitchendesign firm, engineered a new process by which chicken is marinated for 50 minutes in an automated tumbler, cooked in a convection oven, then finished to order on a flame broiler. The process also eliminates the need for 40 running feet of flame broilers, equipment that couldn't fit in smaller restaurants.

All told, the new prototype doesn't cost any more than the old and is more profitable: "We are maintaining or improving capital costs and margins," Carley says. The new freestanding stores average \$1.5 million in sales a year, and several are breaking sales records, though Carley won't give specific figures.

Still, in the process of opening 15 newdesign stores, El Pollo Loco has made several cost-saving moves; among them: using paint instead of custom-made wall-paper and eliminating a video screen that played message loops to customers in line. The screen appeared in the first prototype, which opened in Los Angeles in 2004; El Pollo Loco dropped it from the design after research revealed that customers didn't even notice it.

What customers do notice, however, are freshness cues such as the open grill and salsa bar. To test the new look, El Pollo Loco sent customers to an older store in Los Angeles, then to the prototype.

The response? Customers said the new look "sets the expectation that the food will be more flavorful, more authentic and better tasting," Eadon says. "I've never seen that in a remodel before."

(Clockwise from top I.) To save money, the designers use paint instead of the handmade wallpaper featured in El Pollo Loco's first prototype.

A salsa bar offers five varieties of salsas with varying degrees of heat.

While the salsa bar says "fast casual," the counter and menu board say "fast food."

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Did your meals meet your expectations?

Did you have a favorable experience?

YES

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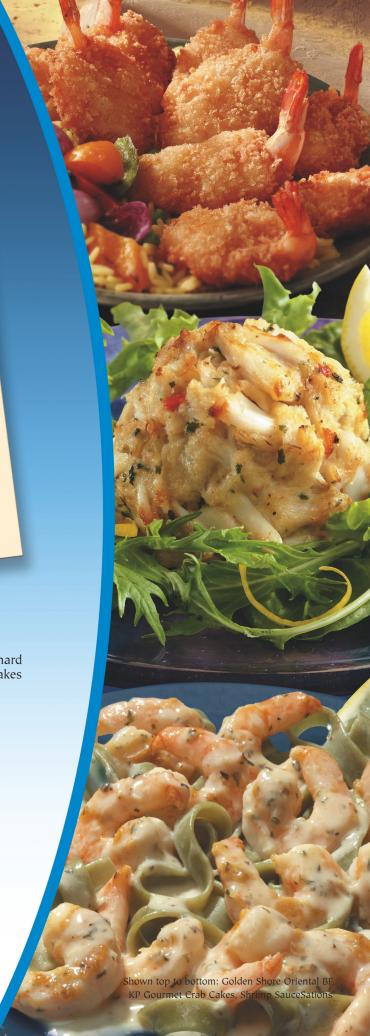
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# Bagel Baker, Sandwich Maker



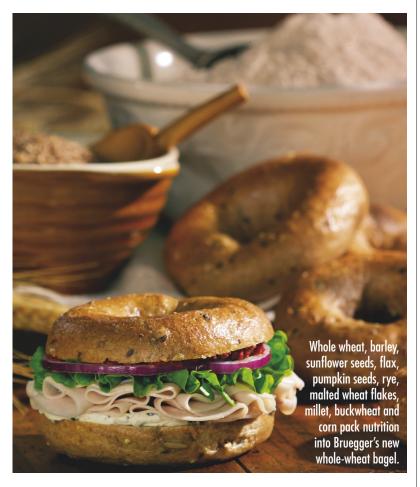
Philip Smith's new menu helps transform Bruegger's from bagel bakery to fast-casual cafe. By Monica Rogers

he only obvious holes that Bruegger's has left unfilled in its menu morph from bagel bakery to fast-casual cafe are the ones in its bagels. "We want guests to love our new look and menu but cherish us for our authentic, kettle-cooked bagels," says Philip Smith, executive chef of the Burlington, Vt.-based chain. "That tradition's not changing."

A whole lot else has since CEO James Greco set out to strengthen ailing 240-unit Bruegger's two years ago. The company has broadened its menu with cafe-style items like salads, upscale sandwiches and more indulgent sweets; remodeled stores with a warmer, more contemporary look; and shaped a next-generation prototype.

And company sales are starting to pick up speed. They built slowly through 2005 with monthly volumes averaging 2 percent higher than the prior year, finishing the fourth quarter with same-store sales 5 percent higher than the same period in 2004.

"It's very gratifying to see this taking hold," says Smith, who stepped over to menu development from a director of training position two months before Greco came on board in 2003. "It all coincides very nicely with the evolution of consumer interest away from low-carb toward healthy and flavorful offerings."



### TOQUE OF THE TOWN

## Bruegger's does 45 percent of business at breakfast and 45 percent at lunch.

Giving guests more reasons to trade up from bagels and cream cheese, Bruegger's just launched two new hearty breakfast wraps.

### Snapshot

CONCEPT

Bruegger's

HEADQUARTERS

Burlington, Vt.

**OWNERSHIP** 

Sun Capital Partners, Boca Raton, Fla.

UNITS

240

2005 Systemwide Sales

\$154.8 million

AVERAGE Unit Volume

\$657,000

AVERAGE CHECK

\$5.42

EXPANSION PLANS

30 in 2006

### Going with the Grain

Requests for low-carb have steadily declined to the point that Bruegger's dropped its low-carb wrap in fall, in favor of a more flavorful whole-wheat wrap. Smith also launched a hearty whole-wheat bagel made with barley, sunflower seeds, pumpkin seeds, flax, rye, malted wheat flakes, millet, buckwheat and corn, that's more on point with customers' new desires.

"I knew that when the pendulum swung away from low-carb, the next thing was going to have something to do with artisanal craftsmanship and healthy basics, and that includes whole grains," he says.

Artisanal and healthful are the objectives in Bruegger's new items like the top-selling whole-wheat bagel and the sourdough bagel, slated for a mid-March launch, as well as the menu sections Smith shaped for 2004 and tweaked in 2005.

"Everything happened in two phases," Smith explains. "There was first the quick-change, 90-day plan, where we introduced the new programs, followed by the second phase where we built on the strengths and adapted what we felt could work better."

Bruegger's launch of salad in November 2003, for example, included four varieties, such as the Mandarin Medley, \$5.19, with Mandarin oranges, dried cranberries, blue cheese and greens, tossed with balsamic vinaigrette and topped with almonds. According to Smith, the salads did all right, coming in at 3 percent of sales and acting as a veto-vote-stopper, but he thought they could do better.

He switched to tossed-to-order service in April 2005 and added a \$5.99 Build Your Own Salad option, allowing guests to choose three veggies, one meat and one cheese.

Vice President of Marketing Scott



### BREAKFAST CLASSICS

Western Bagel Sandwich, with egg, roasted peppers, red onions, cheddar, bacon and chipotle sauce, \$3.39

### SANDWICH CLASSICS

Leonardo da Veggie: roasted red peppers, Muenster cheese, lettuce, tomato and red onion with light herb-garlic cream cheese, on a plain Softwich, \$4.99

### DELI SANDWICHES

Chicken Salad: lettuce, tomato, red onion, cucumber, green pepper, sprouts and choice of condiments, \$4.19

### TOSSED FOR YOU SALADS

Sesame Chicken Salad, with grilled chicken strips, sesame seeds, sliced almonds, chow-mein noodles, salad greens and Asian sesame dressing, \$5.99

Hughes reports that salad sales have doubled since the April change and that half the guests choosing salad now order the build-your-own option.

### Sandwiches Go Beyond the Bagel

Arlene Spiegel, a New York-based restaurant consultant, says the timing is right for Bruegger's to move beyond bagels: "There is a great opportunity today to sell what you have all day, in all sorts of creative ways, without creating confusion in the consumer's mind about what you are."

Bruegger's new sandwiches fit that strategy. Smith upgraded ingredients and added some adventuresome flavors. He first added the top-selling Cuban Chicken, \$5.29, in November 2003. The sandwich includes chipotle sauce and Dijon mustard with grilled chicken strips, honey ham, Swiss cheese, lettuce and pickle slices. In September 2005, Smith followed up with the new best-seller, Cranberry Gobbler, \$5.49, roast turkey topped with cheddar cheese, whole-berry sauce, lettuce, redonion rings, cucumbers and sprouts.



Parmesan Crusted Turkey Tenderloin



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Customers can purchase their sandwiches on bagels or pay a buck more to get them on a Softwich (a soft square bagel), stone-hearth honey-wheat bread or a whole-wheat wrap.

Smith bolstered the soup line in November 2003 with heartier offerings such as Italian Wedding Soup with Pecorino Romano cheese, spinach, pearl pasta, meatballs, spices and celery, \$2.79 per cup, and then extended the line in 2005 to include several organic vegetarian options from the Moosewood Restaurant in Ithaca, N.Y. One popular example: Moroccan Stew, \$2.79, blends cabbage, cumin, red peppers and chickpeas in vegetarian broth.

Smith has yet to quantify changes in sales or satisfaction in response to the new soups. "We'll be looking at those results through winter before determining whether more changes are necessary," he says.

To stay on trend, Smith works closely with his field team, the director of operations, purchasing department and vice president of training. He also looks throughout the industry for new ideas, as well as sifting through decades of wideranging culinary influences.

#### **World Flavors**

With dad in the British Army and mom from British India, Smith's globetrotting childhood included years in Germany, the United States and West Africa. "Mother entertained weekly and made all sorts of world foods," he says. "So I come to my love of food from a global perspective."

Following hospitality-management training in England, Smith worked for a small luxury hotel there. He followed that with a formal externship in Switzerland and cooking stints in St. Moritz and Tuscany. Smith also taught for five years at the New England Culinary Institute before coming to Bruegger's in October 2002.

Smith has borrowed flavors from the Orient and Latin America for Bruegger's menu, but what about Tuscany and India? "I do have some Tuscan flavors in use, and may do more with that, but wouldn't chicken tikka with a curry mayonnaise be nice?" he laughs. "Well, the curry may be a bit before its time."

Smith says while he will push the envelope as far as possible, the aim is to hit that sweet spot of comfortable but intriguing: "You know, keep one foot in safe territory but the other on new ground."

### **Hearty and Indulgent**

No pushing the envelope at breakfast and for dessert, however; here, objectives are to go heartier and more indulgent. "We wanted to give our guests more opportunities to trade up from a bagel and cream cheese at breakfast, and from a cookie at dessert," Smith says.

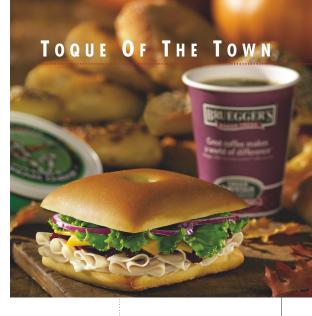
Bruegger's added two hearty breakfast wraps in January. The Classic, \$3.99, includes choice of peppered bacon, sausage patty or honey ham plus cheddar or Muenster cheese and a two-egg omelette. The Rio Grande, \$3.99, adds roasted pepper and jalapeño cream cheese to the build.

At dessert, it's all about indulgence, Smith says. Launched in November 2005, Bruegger's Worthy dessert bars, \$1.69, include the best-selling Seven Layer Bar, with dark chocolate, walnuts, butterscotch, coconut and graham crunch and chocolate kisses. Dessert sales have doubled since the program started.

### **Room for Improvement**

While most of the new items hit the mark, stone-hearth-baked breads have met with muted reception. "The bread was our first attempt to go beyond bagels," Smith says. "We haven't yet cracked the code on this." Bread will continue to augment the bagel lineup, however, and Smith is experimenting with different formulations and loaf sizes. "We're on to something with this sourdough bagel, for example," he says. "It really crosses the two categories."

The jury is also still out on muffins. Bruegger's first attempt with The Morning Glory, a spin on carrot cake, and Blueberry muffins "allowed us to dip our toe into the snack arena," Smith explains. Launched along with the new desserts, muffin sales are not available.



Sandwiches on Bruegger's traditional and square bagels make up half of purchases.

The best-selling Cranberry Gobbler tops roast turkey with cheddar cheese, whole-berry sauce, lettuce, red-onion rings, cucumbers and sprouts. It's shown here on a Softwich, Bruegger's square bagel.



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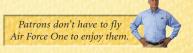
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OWNERSHIP

t 5:30 p.m. on a recent Wednesday, hungry diners are streaming into Claim Jumper at South Coast Plaza mall in Costa Mesa, Calif. Soon, the cavernous dining room is on a wait. By evening's end, the 400-seat restaurant will have served 1,500 meals, typical of a weekday. On weekend nights, the number grows by a thousand.

The attraction is easy to figure out: A decor blending rusticity with sophistication makes for a comfortable setting, and stupendous portions of good food on a reasonably priced menu equals value. Tonight, for example,

strips of breaded calamari, \$10.95, are as thick as steak fries, and a heart-stopping slice of a chocolate cake, \$8.95, dubbed The Motherlode, might well feed six. The company claims it sells 250,000 of them a year. Many customers are toting left-overs as they leave.

More undoubtedly will be asking for doggy bags now that the 38-unit chain is

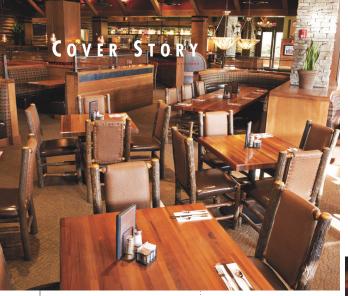


Gold diggers: (From I.)
CFO Bill Hustedt, CEO Craig
Nickoloff and COO Robert
Ott are hoping to mine a
customer-rich vein as
Claim Jumper expands
to the Midwest.

The South Coast Plaza Claim Jumper, part of a busy mall complex, rings up \$170,000 a week.

By David Farkas

February 2006 ♦ Chain Leader



Founder Craig Nickoloff spruced up Claim Jumper's decor with classy lighting, rustic furniture and open kitchens.

The mouth-watering and artery-clogging Motherlode is a six-layer chocolate cake; Claim Jumper claims it sells 250,000 of them a year.

### **SNAPSHOT**

### COMPANY

Claim Jumper Restaurants

### HEADQUARTERS

Irvine, Calif.

UNITS

38

2005 REVENUES

\$250 million

### 2006 REVENUES

\$290 million (company estimate)

AVERAGE Unit Volume

\$7.1 million

AVERAGE CHECK

\$17

### EXPANSION PLANS

5 in 2006; 5 or 6 in 2007

Piper Jaffray positioned Claim Jumper as having a strong culture and team that would make it a nationwide concept.



in the hands of private-equity owner Leonard Green. The Los Angeles-based firm, which paid an

estimated \$220 million to \$240 million after beating out six other bidders, is eager to turn the chain into a national player. Although some potential buyers are said to have wanted new blood at the top, Leonard Green Partner Tim Flynn isn't among them. "We backed Craig [Nickoloff] and his team," he insists. "We think it's a great management team."

Nickoloff, the 54-year-old founder and CEO, is indeed sticking around. "I'm still very active. I'm in the office six days a week and still get out to openings," he says, adding that he reinvested in the company he and his father, Nick, launched 28 years ago in Los Alimitos, Calif. It remained a family-run enterprise until the October auction.

Nickoloff therefore will be heading to Chicago this year. Of the five new units scheduled for this year, three will open in the Chicago suburbs of Lombard, Hoffman Estates and Wheeling. "We will do this slowly and cautiously. We are aware of economic trends," he says.

nomic trends," he says.

"The big challenge is to move from a

small, closely held private company to a large, national brand," says CFO Bill Hustedt. He, along with Nickoloff and President and COO Robert Ott, runs

day-to-day operations.

That won't be easy. None has broad national experience, although they have grown the chain throughout California and opened a dozen Claim Jumpers in four other Western states. Management admits they've learned hard lessons along the way. One: Don't hire new managers locally. The company now seeds new restaurants largely

with veteran managers and has trimmed management turnover from 50 percent to 14.1 percent in the process.

"We noticed this very interesting phenomenon during our openings," recalls Vice President of Training and Development Bill Story. "We tripled our turnover. Because we do so much business, even existing employees get pushed to their maximum." The Fresno unit, for example, reportedly rang up \$300,000 in its first week last July.

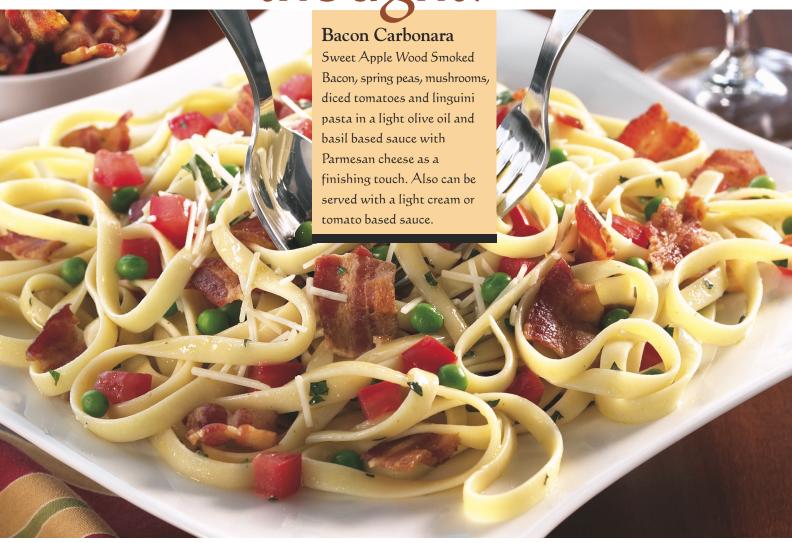
For the Lombard restaurant, which opened in January, Story hired just three entry-level people, dispatching 10 experienced managers at the cost of \$27,000 each. Among them is eight-year Claim Jumper veteran Anna Bozarelos, general manager of the South Coast Plaza unit.

#### **Old Timers**

Long tenure helped up the ante in October's auction. Both Ott and Hustedt, for example, have worked for Claim Jumper for almost 20 years. Story has been there even longer. General managers, like Bozarelos, also hang around for a long time. "There was something we have never seen before," says Flynn, recalling his due diligence. "Among all the managers, 185 have been there more than 10 years."

Tonight, the South Coast Plaza unit's display kitchen is a blur of activity. Yet it is hard to miss its most notable features: a floor-to-ceiling rotisserie and a wood-fired steak broiler. The chain introduced open cooking in 2003, and so far all new units (seven in total) have installed it. Still, it's hard not to wonder what took so long to debut a standard design element among casual-dining chains. "We hadn't put them in before because we do so much volume," Ott says, citing the pressure of putting out so many dishes. Nonetheless, Ott says, they were installed because "we take pride in what we do."

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### COVER STORY





### "I'm not a big believer in just designing a box and then cookie-cuttering it all over." —CEO Craig Nickoloff

For several years Claim Jumper has operated a meat-cutting plant near headquarters that saves it 2 to 3 percent on food costs.

Although restaurants are shrinking from 13,000 square feet to 10,000 square feet, officials insist they will not make the units look alike.

Large volumes are Claim Jumper's hallmark. Although the privately held company doesn't disclose financials, officials claim the last 10 units are each ringing up more than \$8 million a year—a figure that puts them in the rarefied company of Maggiano's Little Italy (AUV: \$9.2 million) and The Cheesecake Factory (AUV: \$11.2 million). Taken as a whole, the unit average is \$7.1 million, still way above most everyone else.

The company expects systemwide sales

to grow to \$290 million, from '05's \$250 million, in '06—a year the Irvine, Calif.-based chain begins testing the concept in the Midwest. In '07 and '08, the chain will open smaller restaurants—10,000 to 11,000 square feet instead of the usual 13,000 square feet-in St. Louis; Indianapolis; and Columbus, Ohio. Then it plans to head to the Carolinas and Florida.

That's when Leonard Green's bet will pay off, says former Baja Fresh CEO Greg Dollarhyde, who represented another private-equity firm interested in the company. "Where [Claim Jumper] is going to reward the very full investment of the equity partners is

when they can pop the East Coast," he says.

Nickoloff insists he's not in a hurry or under pressure from the new owners. "They recognize how careful you need to be," he says. "We haven't even gone to Texas yet, and we always get pressure to go there. [But] that is a very, very, very saturated state."

Then again, so is California, and Claim Jumper has done quite well there since opening its first restaurant. Since 1995,

Claim Jumpers have popped up in Colorado, Arizona, Nevada and Washington. Two units are scheduled for Portland, Ore., this year.

Until recently, no one outside the company really knew how well Claim Jumper did. Could it be that profitable given the portion sizes and the well-appointed buildings? The selling memorandum Minneapolis-based Piper Jaffray prepared for buyers of Nickoloff's company (his family owned about 85 percent) gave industry experts a close look at unit performance. Although sworn to secrecy by confidentiality agreements, several offer a broad picture that confirms what observers long speculated: strong box economics.

"Claim Jumper has a long-standing history of high sales, passion and dedication to the concept," says former investment banker Mark Saltzgaber, who advised two bidders. Management tenure was important, too, but no one failed to notice another salient point. "You weren't going to wake up one day and find someone had copied you. You aren't worried about a direct threat," he says.

### **Risky Business**

Of course, not everyone has the stomach to risk \$4 million plus on each restaurant, despite warding off potential rivals. Damon Chandik of Piper Jaffray, who prepared the selling memorandum, recalls he didn't underline the investment cost: "We didn't downplay it, but I will say you've got to be willing to make the investment." Instead, he

### TAKE THIS JOB AND...

Though Claim Jumper's overall management turnover was only 14.1 percent last year, the high-volume units remain a tough place to work. Vice President of Training and Development Bill Story lists the five top reasons that send newbies out the doors:

**Transfer issues.** Where's the bank, the dry cleaner, and can you deal with the absence of friends and family?

**Different focus.** Total focus is on operating the restaurant according to Claim Jumper's plan — not yours.

Indifference to new ideas. "We can be perceived as not grabbing on to all those great ideas for improvement," Story admits.

Large teams. Not only must new managers get used to running their shifts by the book, they must also learn to subordinate themselves to any one of nine other store managers in the process. Quality of work life. Consider managing 140 employees serving hundreds of customers inside a 10,000-square-foot restaurant from a huge scratch menu with multiple bosses judging your performance.





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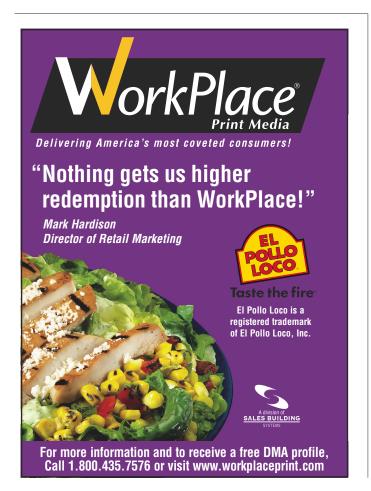
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"The big challenge is to move from a small, closely held private company to a large, national brand." —CFO Bill Hustedt



positioned Claim Jumper as having a strong culture and team that would make it a nationwide concept. "There was great growth potential," Chandik adds.

That notion was evident in the final round of bidding among seven private-equity firms, who pushed the multiple into the low double digits, according to a source who asked for anonymity. If accurate, it's an astonishingly high valuation, even for a proven, high-volume restaurant company. "It's off the charts," declares mergers-and-acquisitions specialist David Epstein of J.H. Chapman Group, adding that seven times earnings is more typical.

Why did Nickoloff, the son and grandson of restaurateurs, give up 65 percent of his company? Certainly the timing must have seemed propitious, with so much private capital sloshing around the industry. Taco Bueno, El Pollo Loco, Dunkin' Donuts, Garden Fresh and Dave & Buster's, for example, recently sold to private-equity buyers, many new to the industry. For his part, Nickoloff wanted to "do some family financial planning." Part of that included immediately reinvesting an undisclosed amount in the company, hoping his family might get "a second bite of the apple," he adds. Employees, including management, own the remaining shares.

Private-equity firms, of course, are buying a company's earnings *potential*, and Leonard Green's Flynn thinks Claim Jumper has it in spades. "It is still a small company, but we see a long runway ahead. We think the concept can grow to two or three times its size," he says. Adds Nickoloff: "We have a very high potential to achieve our EBITDA goals."

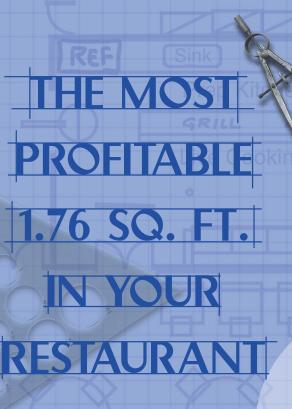
### **Bottoms Up**

Like other executives, Nickoloff, Ott and Hustedt think about boosting the bottom line in their restaurants. "Everyone wants a little more profit. We're on that train," Nickoloff says. At the first board meeting in late November, the company set its profit goals. "With time, we'll be able to achieve a little more profit," Ott says.

Driving down building costs and picking up purchasing and shipping efficiencies in Chicago will eventually help. Meanwhile, keeping the existing restaurants—big, complicated affairs that employee 140 workers—up to snuff is daunting. "Daily operations is foremost on our minds," Nickoloff concedes.

Standardizing the design would reduce costs. But Nickoloff, Ott and Hustedt have so far resisted the temptation, though for how long is anyone's guess. "I'm not a big believer, or haven't been, in just designing a box and then cookie-cuttering it all over. Our feeling is that the design of our restaurants plays a big part of our success," Nickoloff says.

If proof is needed: The gorgeous South Coast Plaza unit, with its gleaming display kitchen, rang up \$9 million in sales last year.



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### **SNAPSHOT**

### CONCEPT

Peter Piper Pizza

### HEADQUARTERS

Scottsdale, Ariz.

### UNITS

136

### 2005

Systemwide Sales

\$171 million

### 2006 Systemwide Sales

\$185 million (company estimate)

### AVERAGE Unit Volume

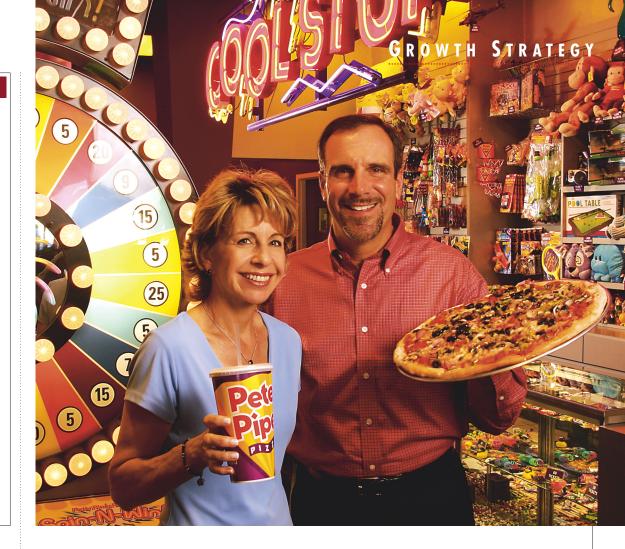
\$1.3 million

### AVERAGE CHECK

\$19 per party

### EXPANSION PLANS

14 in 2006, 23 in 2007



### Playing Both Sides

Peter Piper redefines its pizza-and-games concept as fun for all ages as it prepares to expand beyond its core market. By Donna Hood Crecca

television commercial shows a smiling mother approaching the table with a fresh, hot pizza, only to be surprised to sit down on a whoopee cushion. The

voiceover asserts, "The food's as good as the fun!"

The spot sums up the new brand positioning for Scottsdale, Ariz.-based Peter Piper Pizza, which has 136 locations in five Southwestern states. "The goal is to be known as the restaurant people of all ages look to for a magical experience of great tasting food, fun, family and friends," says President and CEO Frank Sbordone.

But Sbordone is well aware that national expansion is not just fun and games, and is

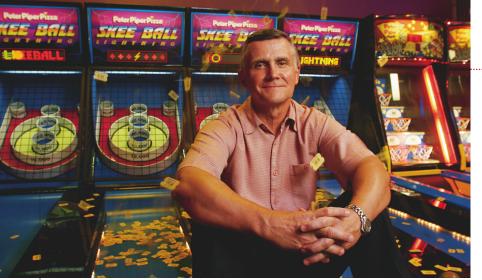
eager to demonstrate the 33-year-old pizzaand-gaming concept is not just for kids.

Changes to the menu, entertainment offering and marketing campaign are designed to differentiate the concept from competitiors with fun-for-all appeal.

### **Grown-Ups Welcome**

Research revealed that Peter Piper customers come in three varieties—families with children, groups such as sports teams, and adults without children—and that patrons stay an average of 90 minutes. So the company embarked on a mission called "90 Minutes of Magic," to deliver quality, service and value.

Vice President of Marketing Laurie Katapski and President and CEO Frank Sbordone have changed Peter Piper Pizza's menu, entertainment and marketing.



Games
account for
26 percent of
sales; food
and beverage
make up
74 percent.

A prototype unveiled in 2002 features three seating options: a quieter, more subdued section with booths and TVs showing sporting events for adults; an area with tables and chairs geared toward family dining; and larger tables and bench seating for groups and parties.

The gaming area features redemption, sports, interactive and video games, as well as children's rides and a play area; guests can redeem tickets for prizes.

Tile floors, warm colors, pendant lights above tables, brickwork and wood accents provide a contemporary feel. At 10,000 square feet, the new locations seat 375 to 400. Twenty-two new stores follow the prototype, and 60 percent of existing units have been remodeled.

Peter Piper also worked toward improving the menu. "Operation Rolling out the Dough," for example, refocuses employee attention on adhering to specs and procedures when preparing the dough.

"Pizza is our core product, so we need to ensure employees know the specs," says Laurie Katapski, vice president of marketing. "The gaming association makes people think the pizza will taste like cardboard. But we make our dough fresh daily at each location, use a special sauce and 100 percent mozzarella."

Don Henry, formerly of Chi-Chi's and Koo Koo Roo, joined Peter Piper as director of food and beverage in 2004. He has introduced menu items and ingredient enhancements to please the palates of young and old alike. The company launched Garlic Cheese Bread, \$4.29, in 2004, followed by two entree salads—Chicken Caesar and Italian Chef, \$4.49—and the popular Cinnamon Crunch Dessert, \$2.99. It rolled out a Caramel Cinnamon Crunch Dessert in October.

"Our goal is to make sure people know

**GROWTH STRATEGY** 

we're more than just cheese pizza and to drive them into the restaurants as much for the food as for the games," Katapski says.

### Play to Win

To maximize its game investment, Peter Piper moved from a vendor-share arrangement to full ownership of all game units at the 39 company stores in the past three years. It hired 18 additional technical managers, so each unit now has someone on site to maintain and service games. The company also purchased nearly 500 new games to keep the mix up to date.

"This investment gives us control over the entire operation. We can service the game area without having to call for the vendor to come; we're able to keep all games in consistent operation," explains CFO Tim Flynn. "Now the manager can manage the entire restaurant, which speaks to delivering on guest service."

Peter Piper also instituted a monthly maintenance schedule. "That way we find the problems before the guest does," says Vice President of Entertainment Steve Thomas, who joined Peter Piper in 2004; he served as director of technical services at Showbiz Pizza and vice president of amusements for Jillian's.

Games account for 26 percent of sales, while food and beverage generates 74 percent. Food and beverage transactions average \$19 per party, plus an additional \$8 on games. "Our entertainment revenues are now higher because we own the games. The added personnel cost is offset somewhat by better in-service rates and guest-service levels, but on a gross basis, we expect the ratio to remain consistent," notes Flynn.

Many franchisees are also buying games and training technicians, all with Thomas' assistance. And they're modeling other corporate initiatives such as a game database that tracks guest usage.

### **Balanced Branding**

To communicate the changes at Peter Piper, new TV ads and a redesigned Web site debuted in mid-2004. At the same time,

Vice President of Entertainment Steve Thomas has maximized Peter Piper's game investment by moving from a vendorshare arrangement to full ownership of all games.



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### GROWTH STRATEGY

## Since embarking on its new branding strategy, Peter Piper has seen sales increase by 10 percent.

the company took on sponsorship of the Phoenix Suns and Arizona Diamondbacks.

The eight television commercials convey the "total family experience," according to Katapski. In addition to the whoopee cushion spot, scenarios include a coach with team members, a father and son, and other group and family situations.

"We strive to balance the food focus with the gaming focus in our campaign. A syndicated study shows that the campaign is driving increases in brand awareness and food-attribute awareness," Katapski says.

This multipronged strategy is driving results overall. Systemwide sales reached \$154 million in 2004, a 10 percent increase



Director of Food and Beverage Don Henry upgraded the menu to appeal to a wider audience.

over 2003, according to Chicago-based industry analyst Technomic. Peter Piper ended 2005 at \$171 million. The company says average unit sales are \$1.3 million, up from \$1.2 million in 2003.

Twelve Peter Pipers opened in 2005, and 14 units will open in 2006 and 23 in 2007. With 96 of its 136 restaurants franchised, Peter Piper will grow primarily through franchise develoment, with two or three franchised units for every company unit. The chain will expand beyond its Southwest core market by mid-2006, says Sbordone, who is talking with potential operators in Florida, Illinois and the Northeast.

"There is room for a national chain like Peter Piper," observes Darren Tristano, managing director at Technomic. "Chuck E. Cheese's and Dave and Buster's certainly show that Americans like entertaining themselves with games, and they each hit a certain demographic. What Peter Piper hits upon is that you almost have to appeal to all different age groups to grow today, and they're having good growth."

Peter Piper plans to keep that momentum going. "The goal is to be national, but to do it slowly and make the right decisions on where to go," Katapski says. "Our approach is to be methodical yet aggressive enough to impact the business."

### more



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### **Dairy** in Demand

Availability of healthful dairy products away-from-home is on the rise

ith obesity concerns across America, consumers are looking for healthier food options at QSRs. Parents and teens say they would visit QSRs more often if healthier choices were available—and they'd be willing to pay more for them, according to a 2003 Technomic study.

Dairy provides an enticing spectrum of offerings for health-conscious customers. And many parents say they want to see more dairy on the menu: 69% of moms say they wish QSRs would offer a wider variety of dairy products, including healthy dairy snacks, a 2004 GfK Kids Study reported.

#### **Nutrients and Nutrition**

Dairy provides a powerful nutritional package. It's rich in calcium, vitamin B-12 and protein. It is also rich in potassium, phosphorus, vitamins A and D, riboflavin and niacin.

One of the key recommendations of the new U.S. Dietary Guidelines is to consume three cups per day of nonfat or low-fat milk, or equivalent milk products. And word is getting out: a 2004/2005 Yankelovich Monitor study found that nearly 4 in 10 consumers care about getting more calcium. Increasingly, they can do just that at QSRs.

### **Got Dairy?**

New innovations in dairy products—such as single-serving plastic packaging for milk, flavored milk, yogurt varieties and snacking cheeses—are boosting the category. Resealable plastic milk packaging is making a splash at QSRs around the country. McDonald's and Wendy's both made milk available in re-sealable, kid-friendly, plastic 8-oz. bottles in white and chocolate, and saw

their milk sales skyrocket.

Wisconsin-based Culver's has long offered milk in single-serving cartons, but found that its customers were interested and enticed by new milk packaging. In response, all Culver's locations in 15 states are rolling out plastic resealable "milk chugs," in 2% white and lowfat chocolate.

An increasing number of Subway franchises in the U.S. and Canada are also menuing milk. Individual operations are reacting to local demand and adding plastic re-sealable milk containers as an independent initiative.

The demand for milk includes flavored milk as well. Sixty-nine percent of kids say chocolate milk is their favorite drink, the GfK study found, and 40% of adults who order milk at

QSRs regularly purchase chocolate—and would like to see more flavors available, according to a 2004 NPD study.

Because of yogurt's wide appeal and healthy platform, many QSRs are adding it to menus. One recent example is Wendy's fresh-fruit-and-yogurt entrée salad with low-fat strawberry-yogurt dipping sauce, available throughout the day. Another is McDonald's new Fruit & Walnut Premium Salad, with sliced apples, red seedless grapes, candied walnuts and a side of low-fat vanilla yogurt.

#### **All-Day Dairy**

Healthful dairy items span the day-parts—they're not just for breakfast. Milk is becoming a popular beverage throughout the day: 1 in 5

adult QSR visitors ordered milk for themselves in the past 3 months, and 39% of these adults bought milk with meals other than breakfast, according to the NPD study.

Yogurt, too, has cross-over potential. McDonald's low-fat yogurt parfaits are available all day, and since their introduction in 2002 have become popular for breakfast, lunch and as a healthy snack or dessert, according to the company. Parents prefer to order yogurt for their children as a side item, snack or dessert alternative to cookies or cake, the GfK study found.

And for a healthy snack option, consider adding string cheese: 73% of kids say it's fun to eat string cheese, and 60% said they would definitely or probably order it as a snack, the GfK study found.

From breakfast parfaits to string-cheese snacks to refreshing milk, dairy is adding its healthful, delicious attributes to QSR menus, all day long.







Chain Leader LIVE takes a look at how operators successfully execute and grow their concepts.

By David Farkas

est-selling author and consultant Jason Jennings knew how to grab the attention of the 160 restaurant industry executives who attended the second annual *Chain Leader LIVE* Nov. 16 to 18 in Dallas.

Using research from his latest book,

Think Big, Act Small, Jennings kicked off the conference with an illuminating keynote speech that offered important tips for improving leadership and execution. In his book, he profiled nine companies that have grown both revenue and operating profits by 10 percent or more for 10 consecutive years. One of those companies was Oklahoma City-based Sonic Corp.

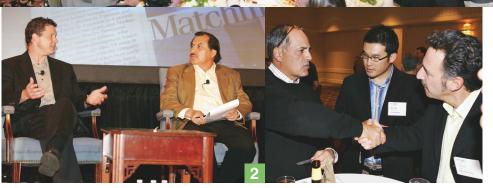
Jennings shared the five secrets of their success: Great leaders and companies have a cause, master the art of letting go, completely satisfy the right customer, get everyone to think and act like owners, and see themselves as stewards.

- 1. The Upstarts session looked at how to grow an up-and-coming chain.
- 2. The On The Money breakout session covered topics like how to raise money for expansion.
- 3. Keynote speaker Jason Jennings offered tips for improving leadership.
- 4. Chain Leader Editor-in-Chief Mary Boltz Chapman presented Billy Downs with the Protégé Award.
- 5. At the Storyboard session, Bob Taber, Monica Hahn and Billy Downs spoke about how their ads increased sales.

## Skillful Leadership

### THE LEARNING ORGANIZATION





### Dallas-based chains such as Which Wich and Abuelo's showcased their signature fare.

1. Tom Giannetti, director of IT at El Pollo Loco, told attendees at the Technology breakout session that the fast-food chain is testing a central call center that takes drive-thru orders.

2. Luke Belsito (l.) of Red Robin and Pepe Lopez of El Torito explained how they develop innovative menu items that can be replicated throughout their chains' systems during the Toque of The Town session.

### Taking the Gold

Chain Leader itself bestowed prizes on the leaders of three successful restaurant companies: Phil Hickey, chairman and CEO of Rare Hospitality, won the Chain Leadership Award; Billy Downs, owner and founder of bd's Mongolian Barbeque received the Protégé Award, honoring a restaurant executive under 40; and Joe Lee, former chairman of Darden Restaurants, won the Legend Award.

Last year's Chain Leadership winner, Rick Federico, CEO of P.F. Chang's China Bistro, offered his thoughts on restaurant leadership by tracing the development and ongoing operations of the popular chain. "The cornerstone of our business is employee ownership," he said, adding that by increasing employee tenure, P.F. Chang's saw a "corresponding increase in sales and profits."

Federico then joined Hickey, CEO Aslam Khan of Falcon Holdings and BJ's Restaurants Co-Chairman Paul Motenko for a lively discussion of the skills needed to keep their brands growing. Khan, for instance, described how incentives for managers build the brand's momentum. Federico recalled the lessons of his mentors: Grady's founder Bill Regas had the unique ability to make people feel good about themselves because he always praised employees for their accomplishments, and former Brinker CEO Ron McDougal always held people accountable.

Lamar Hamilton could have used bosses like that. In the

Upstarts session, the Minneapolis-based businessman described in painful detail the downfall of Bilimbi Bay, a three-unit, Caribbean-themed chain he and partners opened and closed within three years. One problem: They opened all three restaurants within three weeks. "I don't recommend doing that," Hamilton wryly advised.

#### Same Old DNA

On a more successful note, at the Restauratour session, Bear Rock Cafe CEO Gary Bryant described how he and designer Bill Chidley of Design Forum went through a branding evolution. "The point was to keep the original DNA, but we needed to make the name more relevant," Bryant explained.

Their solution: making the fast-casual units more sophisticated and less rustic. Today, the two added, the gender-neutral design translates easily to new markets.





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### THE LEARNING ORGANIZATION



- 1. Chain Leader recognized companies that were featured in the magazine's "Best Places To Work" issue.
- 2. Executives who have appeared on *Chain Leader's* covers selected Phil Hickey for the 2005 Chain Leadership award.
- 3. Gary Bryant of Bear Rock Cafe detailed how he redesigned the chain's stark interior into a mountainlodge look.
- 4. (From I.) Aslam Khan of Falcon Holdings, Paul Motenko of BJ's Restaurants, Rick Federico of P.F. Chang's China Bistro and Phil Hickey of Rare Hospitality shared how they keep their brands growing.

### Attendees grilled experts on brand strategy, technology, HR, food safety and finance at informal breakout sessions.

The Toque of the Town session explored the culinary side. Corporate Executive Chef Bob Davis of Max & Erma's humorously related the story of a tomato, mozzarella and chicken sandwich he developed that at first didn't seem to fit in with the concept's menu of signature burgers. Despite the "operational nightmare" it caused, both servers and customers loved it. Afterward, Davis joined corporate chefs from Red Robin, Elephant Bar and El Torito for an interactive discussion with the audience.

#### **Dinner Bell**

Food was also a focal point Thursday evening when several local chains show-cased their signature dishes. Guests feasted on such fare as Abuelo's bacon-wrapped shrimp, Chili's chili, and Which Wich's turkey and roast beef sandwiches.

Informal breakout sessions gave attendees the opportunity to grill the experts at close range. At the Human Assets session, Chief People Officer Bill Streitberger of BJ's Restaurants and Applebee's John Prutsman, executive director field human resources, detailed the process of qualifying managers for promotion. Eat'n Park Vice President of Human Resources Karen Bolden talked about her company's internship program, which teaches leadership skills to employees who are college students.

Those young people could be tomorrow's restaurant industry leaders. To make sure they stick around, today's bosses should keep in mind something Legend Award winner Lee offered: "[Darden] has provided me with more opportunities than I thought existed. My obligation here is to ensure the opportunities I received exist for other people."

For additional photos from *Chain Leader LIVE* and information on this year's event, visit www.chainleader.com/live.

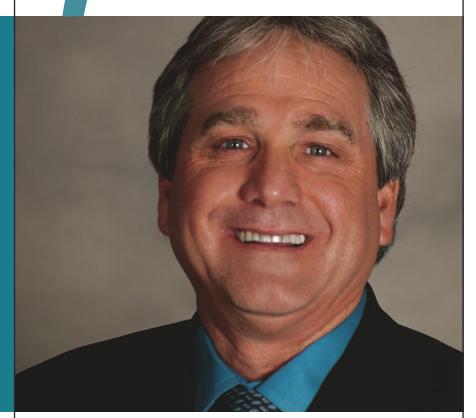
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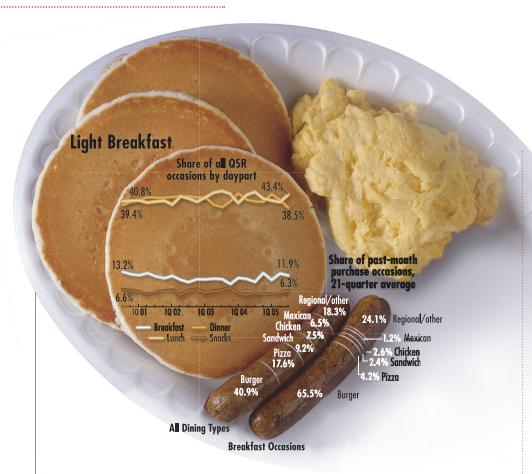




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As a *communication champion*, Doug understands that a free-flowing dialogue among team members creates a mutual level of trust, respect and inclusion that is essential to an organization's overall performance. In fact, it's one of the primary reasons he supports The Elliot Leadership Institute and endorses its **10 Dimensions of Executive Leadership**<sup>TM</sup>, the most critical measures of industry success. Using these insights, the Institute has been extremely effective in providing management teams across the country with the "tools" they need to grow both personally and professionally. Based on validated research and proven principles, this innovative suite of cost-effective online products and services was developed by hospitality leaders for hospitality leaders.

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### Morning Traffic Report

National QSR chains see much of their breakfast business go out the window.

### BY MARY BOLTZ CHAPMAN

ast-food customers tend to stick to their cars in the morning. Half (49.4 percent) of those who had breakfast on their last QSR occasion used the drive-thru, according to the quarterly Quick-Track survey by Sandelman & Associates, a San Clemente, Calif.-based research firm. A 21-quarter average shows that 25.9 percent of customers who had breakfast on their most recent occasion ate in the restaurant, and 23.3

percent used carryout. Of all users' last occasions, 30.1 percent were drive-thru, 27.2 percent were eatin, and 30.9 percent were carryout.

- Breakfast comprises 11.1 percent of all QSR occasions, a 21-quarter average reveals.
- National hamburger chains receive the bulk of those occasions: 65.5 percent of those having breakfast in the past month. Burger chains see 40.9 percent of all pastmonth occasions.
- Only 10.3 percent of fast-food customers having breakfast on their most recent occasion used a special

### **Weekday Routine**

All QSR users' past-month purchases, 21-augrter average

All Occasions						
11.2%	14.5%	16.1%	14.3%	19.7%	14.4%	9.8%
Breakfast Occasions						
15.3%	14.2%	15.8%	14.5%	6 13.9%	16.4%	9.8%
Monda	v Tuesday	/ Wednesd	nv Fridav	Saturday	Sunday	

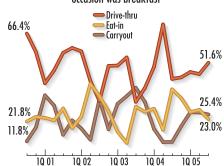
- promotion or deal vs. 22.0 percent of all QSR users, according to a 21-quarter average.
- Those customers having breakfast on their last occasion spent \$3.92 per person on average; all users spent \$4.70.
- Fully 49.7 percent of QSR patrons who had breakfast on their most recent occasion were alone. Of all users, 27.1 percent dined alone on their last visit.
- The average number of people per party was 2.0 for those having the morning meal on their last occasion vs. 2.8 for all, according to a 21-quarter average.
- 25.6 percent of fast-food users whose last visit was at breakfast bought a cola or diet cola; 24.1 percent had coffee.

Methodology

Customer trend data is based on the quarterly Quick-Track survey by Sandelman & Associates, a San Clemente, Calif.-based research firm. Quick-Track queries a nationally representative sample of 600 fast-food customers on a host of demographic and usage questions. The firm defines "QSR breakfast users" as those who have purchased breakfast from a QSR at least once in the past month. Most-recent purchase data is based on all fast-food users whose QSR purchase was at breakfast.

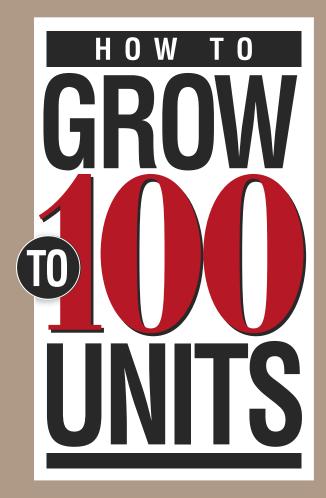
### **Commuter Stop**

All QSR users whose last purchase occasion was breakfast



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# Franchise Developer

### **New Profit-building Tools**

efore you decide whether to add another restaurant under your current brand or diversify with a new one, take a close look at the range of business-building tools included in the franchisor's ongoing support services. Franchisors are vying for growth with everything from yield-management training to new menu concepts. Programs to evaluate include:

• Technology. Look for an innovator. "Overall, the industry has been behind the curve in utilizing technology at the unit level," says Melissa Wilson, principal with Chicago-based foodservice consultant Technomic. What signals a strong platform for franchisees: software that reaches through the depth and breadth of the operation—from table reservations to inventory. Look for technology that offers customers time-saving, computerized ordering and payment options. Ask about solutions that leverage promotional and cross-selling opportunities across your database.



Chains such as CiCi's Pizza are considering incentives for franchisees who meet multi-development targets ahead of schedule.

- Incremental revenue drivers. Craig Moore, president, CiCi's Pizza, Coppell, Texas, sees franchisors working to develop new revenue streams. "One trend is to add 'legs' to the business with revenue drivers such as off-premise catering and to-go items," says Moore. Expect further refinements on those themes as franchisors roll out signature products, such as popular salad dressings or desserts for retail sale.
- Training. "Few franchisors provide franchisee training on how to effectively operate multiple units and leverage these potential efficiencies. One example of a franchisor that does is Panera Bread, which offers an optional seven-week course," says Technomic's Wilson. Panera, which only offers multiunit franchises, provides a class to prep operators for multiunit leadership, she adds.
- Incentives. Chains such as CiCi's Pizza are considering incentives for franchisees who meet multiple-development targets ahead of their projected pace. Larger portfolios give franchisees more say in the decision-making process—from involvement on franchise advisory councils to participation in new product testing.



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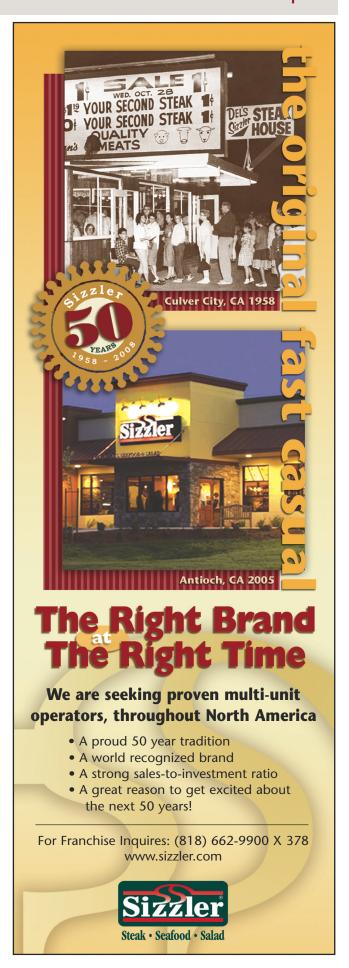
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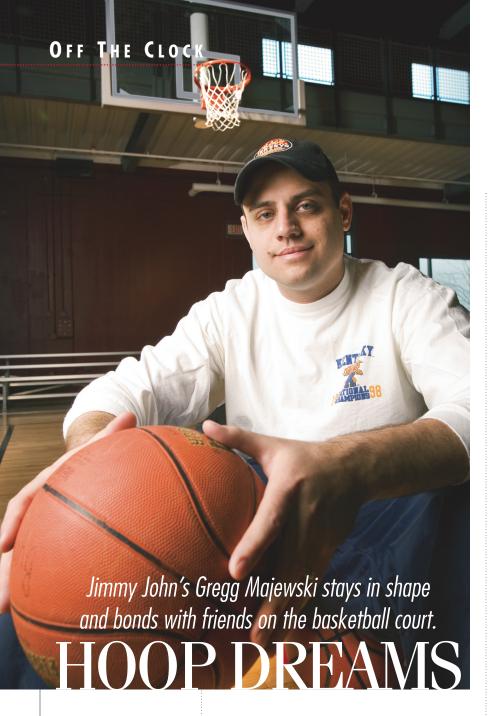
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### BY CHARLES BERNSTEIN

regg Majewski, franchisee of 15 Jimmy John's Gourmet Sandwich Shops as well as CEO of South Elgin, Ill.-based Wildcat Investments, which recently launched the Jerseys Pizza & Grill and Patty Burger concepts, plays basketball whenever he can.

"It is a game I just love," he says. "It requires teamwork, a fast pace and plenty of challenges. No matter how good any player is, the team has to succeed together. Most of all, I get a kick out of making so many friends on the basketball court.

His love of the game started in the fourth grade at the Grove Avenue elementary school in Illinois. Majewski liked playing basketball but admits that he wasn't very good, especially since he was short.

### **Team Player**

But it didn't stop Majewski from joining the junior-varsity basketball team in high school. Although his team got crushed at first, the Burlington, Ill., high school team started to improve the second year.

Majewski also started to break out in his sophomore year. He finally grew to 5 feet 3 inches and moved up to the varsity team. "My high school coach gave me the chance to show what I could do, and I've never forgotten that," Majewski declares.

"I was a point guard averaging 10 points a game and making my share of assists," he says. "We never won the state high school championship, but we did win some of the league championships."

### Playing from the Sidelines

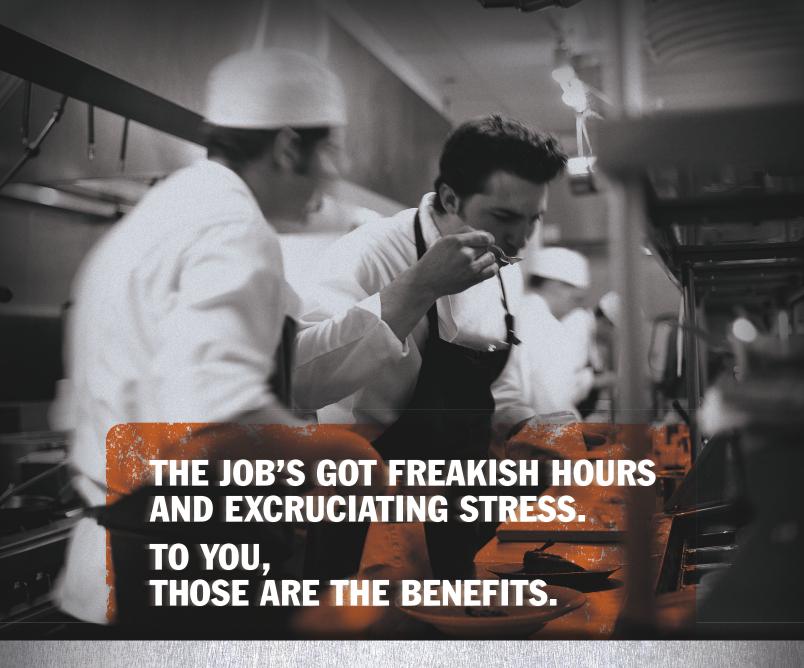
By the time he was a freshman at the University of Kentucky, Majewski had grown to just over 6 feet tall, still small for a basketball player. He unsuccessfully tried out for the Kentucky basketball team, but he continued to play pickup games with his college friends.

"Truthfully, I wasn't good enough to make that great team," Majewski admits. "Even though I wasn't on the team, I really

enjoyed the pickup games."

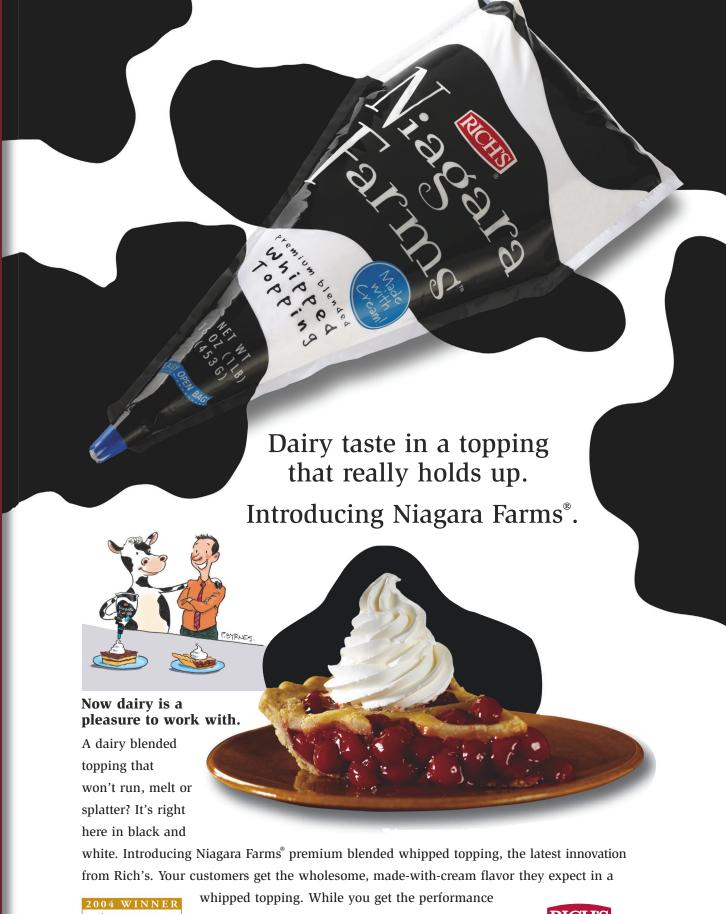
The college basketball seasons turned out to be exciting for Majewski and his alma mater. Antoine Walker, who is now a professional basketball player for the Miami Heat, led the team to the 1996 and 1998 college championships. In between he helped the team finish second.

At age 29, Majewski still plays pickup games for the friendship and the fun of it. He likes playing the power forward position and scoring three-pointers from far outside. He plays in gyms and churches twice a week for 60 to 90 minutes each time. Basketball helps him stay in great shape, and he fully expects to play for at least another 30 years.



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