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HUMAN ASSETS

How Do You Compare?

s a restaurant company's sales increase, compensation goes up. In executive positions, anyway. According to HVS International Executive Search's 2005 Chain Restaurant Corporate Annual Report, a CEO of a company with revenues between \$100 million and \$500 million received an annual median salary of \$400,000 while one running a company with revenues of more than \$500 million earned a median salary of about \$587,000. Regional operations and management positions didn't show the same pattern, as they tend to have the same responsibilities no matter how large the company is.

Salaries among the top positions vary widely. CEO base wages, for example, range from \$1 (yes, one dollar) to \$1.4 million; presidents' salaries range from about \$73,800 to \$950,000. At the unit level, general managers earn anywhere between \$30,700 and \$113,300.

Chief information officers saw the largest increase in median salary over 2004, 16

Executive Comp Plans

	Median Salary	Average Bonus
Chief executive officer	\$400,000	\$312,301
Chief operating officer/president	291,748	194,381
Senior vice president operations	173,891	76,457
Regional director operations	105,951	23,503
Area manager	77,568	18,094
Unit general manager	51,358	10,109
Unit assistant general manager	37,508	3,502
Unit kitchen manager/chef	40,022	4,703

Source: 2005 Chain Restaurant Corporate Annual Report, HVS International Executive Search

percent, bringing their base earnings to about \$150,000.

The report noted that long-term incentives for executives continue to be popular, but at public companies there has been a shift from stock options to restricted stock awards, which often vest only if the executive meets predetermined goals.

HVS International surveys 107 companies via interviews, survey responses and public information.

LOYALTY MARKETING

ESPN Zone Gives VIPs Priority Seating



In January ESPN Zone launched a new reservation system so members of its MVP Club can get their favorite seats for big events like the Super Bowl.

What's unusual about the reservation system is that it's based on a unique and often uncertain calendar: major sporting events. Members may choose where they want to sit for the games for parties up to eight people. The eight-unit, Burbank, Calif.-based concept features several dining areas as well as a lounge and gaming

ESPN Zone enables its loyal customers to reserve seats for the big game.

area. The units also set aside a large portion of each space for walk-in guests.

MVP Club members also receive news about chain menus and events, merchandise discounts, and bonus points on their game cards, and there is no charge for membership. Currently the chain boasts more than 50,000 members.

ESPN Zone can't quantify increases in sales or volumes from its MVP Club members during these events. But it is pleased with the 99 percent success rate of users who were able to make online reservations and get seated without any complications at the restaurant.



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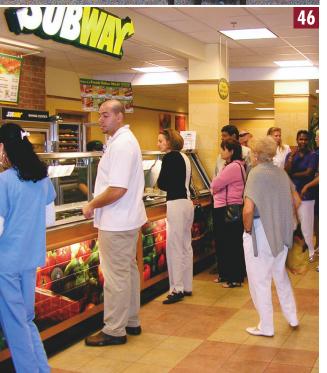


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Chain Leader Vol. 11, No. 4 April 2006

STORYBOARD

20 Continuing Education

Beef 'O' Brady's new ad campaign explains the concept of a family sports pub with higherend production values. Debuting last September, the new commercials target both loyal and new customers. They feature Girl Scouts, Little Leaguers, gymnasts and others celebrating childhood events at Beef 'O' Brady's, interspersed with food photography, and end with the tagline. "See you at Beef's." Moving back to

tagline, "See you at Beef's." Moving back to its core message has paid off: Since 2004, average unit volume has increased from \$640,000 to \$1 million.

By Margaret Littman

RESTAURATOUR

24 A Family Affair

To attract more dine-in guests and expand into big-box suburban locations, Happy Joe's Pizza & Ice Cream has repositioned its concept into Happy Joe's Cafez, complete with a new prototype to keep even the squirmiest child happy. A chandelier with a tangled confection of wire and red and white bulbs, pizza-sauce-red walls, and wall decorations like game boards and album covers keep kids entertained while they wait for their food. The Bettendorf, Iowabased chain plans to convert its existing units while expanding into Detroit and Madison, Wis.

By Lisa Bertagnoli

TOQUE OF THE TOWN

31 User-Friendly

Corporate Executive Chef Wayne Schick has reshaped Mitchell's Fish Market's menu with extraordinary yet accessible dishes without major impact on food and labor costs. He retooled the fish category with new presentations and sides, expanded the kids' menu and added nonseafood options. In addition, Schick eliminated or altered several dishes to improve execution efficiencies in the kitchen.

By Monica Rogers

COVER STORY

38 Cornering the Market

Il Fornaio Chairman and CEO Mike Hislop will put his skills to the test trying to uncork the growth potential of Corner Bakery Cafe, which Il Fornaio and its largest shareholder acquired from Brinker International in February. He plans to keep Corner Bakery's experienced management team in place and the changes it made to the bakery-cafe's prototype and service. Hislop intends to grow the chain rapidly: After opening six to eight units this year, he plans 20 a year, with the first franchise stores slated for 2007.

By David Farkas



TECHNOLOGY

46 Order Accuracy

Subway's purchasing co-op began using a Web-based promotion-management software in mid-2005 to monitor the chain's product pipeline. The technology is meant to make limited-time offers, promotions, product tests and rollouts more profitable by preventing the chain from running out of product or from having leftover inventory. *By Mary Boltz Chapman*

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Chain Leader (ISSN 1528-4999) (C.P.C. Intl. #1230824, 6ST #123397457) is published monthly with additional issues in April and October by Reed Business Information, 8878 S. Barrons Blvd., Highlands Ranch, CO 80129-2345. Reed Business Information, a division of Reed Elsevier, Inc., is located at 360 Park Avenue South, New York, NY 10010. Tod Smith, CEO; Jeff Greisch, President, Chicago Division. Chain Leader® is a registered trademark of Reed Elsevier Properties, Inc. used under license. Circulation records are maintained at Reed Business Information, 8878 S. Barrons Blvd., Highlands Ranch, CO 80129-2345. Phone: (303) 470-4445. Periodicals Postage paid at Littleton, CO 80126 and at additional mailing offices. POSTMASTER: Send address changes to Chain Leader, P.O. Box 7500, Highlands Ranch, CO 80163-7500. Chain Leader Copyright 2006 by Reed Elsevier, Inc. Address subscription mail to Chain Leader, B878 S. Barrons Blvd., Highlands Ranch, CO 80129-2345. All Rights Reserved. PRINTED IN THE USA. Reed Business Information does not assume and hereby disclaims any liability to any person for any loss or damage caused by errors or omissions in material contained herein, regardless of whether such errors result from negligence, accident or any cause whatsoever.

ON THE NET

How to Grow to 100 Units

- Our new online series, created to help young chains reach the next level.
- The experts respond: How often should regional managers visit units?
- Coverage of Chain Leader's "How to Grow to 100 Units" roundtable, including video highlights.
- An expanded editorial archive of stories on growing concepts.
- California Tortilla's Pam Felix on the trials and joys of expanding her spunky concept.

Phis

- Financial adviser Jim Parish talks about the financial status of the industry.
- Senior Editor David Farkas muses about the restaurant industry in his blog, Dave's Dispatch.
- Daily news.
- Franchise opportunities.
- Archived stories from the pages of *Chain Leader*.

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On the Front Burner

y maternal grandfather emigrated from Holland as a teenager, seeking prosperity and happiness here in the United States. Grandpa married a woman whose roots in this country reach at least to the Civil War, perhaps to the American Revolution. He worked as a milkman most of his career; she kept house and raised the kids. They didn't live in the lap of luxury, but they were prosperous and happy.



Act now if you want to impact immigration law.

Even though it might be quaint or even trite, most people can relate a similar story from their own family tree of immigrant ancestors making good in America. That story may be changing for future Americans.

Taking it to the Streets

An estimated 100,000 people gathered in Chicago March 10 to call for immigration reform and protest H.R. 4437, a bill

approved in the House in December that would build up immigration enforcement, erect a fence along the Mexican border and punish those who aid illegal immigrants, for example, companies that hire them. Politicians including Gov. Rod Blagojevich, Mayor Richard Daley and U.S. Sen. Dick Durbin also took part to support immigrants and a competing bill that would provide legal status to many undocumented workers, extend temporary work visas and make it easier for legal immigrants to bring their relatives into the country.

The protesters weren't arguing for getting rid of immigration laws but calling for rules that make sense and that people can follow. Undocumented workers who contribute to their communities and society should have options to work legitimately.

The rally shut down traffic in parts of downtown Chicago, but also restaurants and other businesses that couldn't operate without the employees who marched, which

helped illustrate the importance of immigrants to our industry.

This wasn't the first immigrant protest, and it won't be the last. The Senate is supposedly trying to create legislation that would both address national security and the temporary-worker program. Senate Judiciary Committee Chairman Arlen Spector has said that he hopes the committee will have something by the end of March.

Bring Us Your Huddled Masses

The National Restaurant Association and the American Hotel & Lodging Association sent a letter to the U.S. Senate, signed by all 50 state associations, asking for reform. It notes that our industry has tried to encourage native-born Americans to work in restaurants and hospitality, but we need more people to fill jobs. The NRA estimates that the restaurant industry alone will create 1.9 million new jobs by 2016, and demographic trends will not support them.

In part, the letter to the Senate states, "We believe that any viable immigration proposal must accomplish three objectives: strengthen our national security, reinforce the rule of the law, and address the current and future labor requirements of our economy."

Now is the time to contact your senators and demand immigration reform that would be user-friendly, offer a clear path to citizenship, unite family members separated by borders, and take into consideration our industry's labor needs.

As leaders of an industry that employs more workers than any other civilian industry, you have an influential voice. And likely a great story.

MARY BOLTZ CHAPMAN, **EDITOR-IN-CHIEF**

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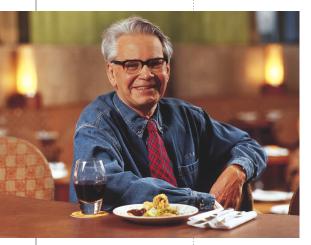
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Making Room

iversity is crucial in the restaurant industry, not just because it is the "right thing to do," but because diverse perspectives are key to continued success. As in a portfolio of assets, an array of stocks, bonds, real estate and other interests is more likely to be successful than a single source of income. Such an attitude must start at the top and work its way down through the organization.



Beyond the Work Force

When we talk about diversity in the industry, we most often think about recruiting and developing women and minorities into positions where they can grow into company leaders. And, of course, that's urgently needed.

But I challenge you to recruit and develop underrepresented groups in another area: franchisees.

Gerald Fernandez.

president of the MultiCultural Foodservice & Hospitality Alliance, asserted that "people of color have passion about the growth opportunities that our industry has around diversity, especially in franchising." He participated in a diversity session at the International Franchise Association's conference last month in Palm Springs, Calif. The annual event attracted approximately 2,500 attendees, mostly franchisees. Some 100 attended the diversity presentation.

Diversity on Stage

During the session, Maurice Cox, Pepsi-Cola Company development vice president, emphasized that corporate values depend on diversity and that it is crucial to welcome people of all colors. Acknowledging that it can sometimes be difficult, he pointed out that people don't always have to agree, but they need to respect each other.

He also said that inclusive efforts don't happen overnight. "You have to start in training, learning and education," he affirmed. He called successful diversity programs a long journey, where those who get there first will set the pace for others.

Terrian Barnes, Yum Brands community diversity vice president, challenged leaders to make diversity efforts a priority: "If you can't fit it in, how can you expect your people to do it?" She advised them to talk to people about what their concerns are, and then to act on what they learn.

Where to Start?

But talk of "race relations" and "women's issues" can be difficult, emotional and even scary. The MFHA is a good resource for improving your company's diversity efforts. The way Fernandez puts it: "We serve as the industry's multicultural leader, a sort of best solution to industry challenges."

Fernandez is determined to help the industry improve its corporate culture "so that we can grow profits. We serve as a sort of yellow pages for identifying people and organizations that help us solve diversity challenges."

In essence, Fernandez is convinced that diverse points of view produce the best solutions. "And diverse leadership is required for our industry to keep growing," he declared.

I agree. While diversity has gradually improved over the years, there is still a great deal of room for more women and minorities in the top spots and throughout the industry. And chain leaders can make it happen by recruiting and promoting a diverse work force as well as a diverse stable of franchisees.

Diversity is needed in our work force and among our franchisees.

CHARLES BERNSTEIN, **EDITOR-AT-LARGE**

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- 6 Load and unload appropriately
- 4 Filter and clean often



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FOR ARTICLE REPRINTS OR ELECTRONIC USE PHONE: (800) 290-5460, ext. 168 E-MAIL: chainleader@reprintbuyer.com

PUBLISHER: Ray Herrmann

> EDITOR-IN-CHIEF: Mary Boltz Chapman MANAGING EDITOR: Maya Norris SENIOR EDITOR: David Farkas SENIOR ART DIRECTOR: Ala Ennes PRODUCTION ARTIST: Krystina S. Kliman EDITOR-AT-LARGE: Charles Bernstein

> > CONTRIBUTING EDITORS:

Lisa Bertagnoli, Margaret Littman, Monica Rogers

CHIEF EXECUTIVE OFFICER: Tad Smith CHIEF FINANCIAL OFFICER: John Poulin PRESIDENT, CHICAGO DIVISION: Jeff Greisch GROUP PUBLISHER, FOODSERVICE GROUP: Gerald J. White EDITORIAL DIRECTOR, FOODSERVICE GROUP: Patricia B. Dailey NATIONAL SALES MANAGER: Craig M. Coale

REGIONAL ADVERTISING SALES MANAGERS

SOUTH/SOUTHEAST Jeff Christerson (678) 461-4063

NEW ENGLAND/MID-ATLANTIC Alison Stager (646) 746-6403

CALIFORNIA/SOUTHWEST/MOUNTAIN Susan M. Hojer (310) 314-2149

Craig M. Coale (630) 288-8207

INDIANA/MICHIGAN/OKLAHOMA/TEXAS

ARKANSAS/IDAHO/ILLINOIS/MISSOURI/OREGON

Patrick New (630) 288-8212

ILLINOIS/KENTUCKY/OHIO/WISCONSIN Gary Knuth (630) 288-8208

WEST NORTH CENTRAL/ILLINOIS/WISCONSIN Sam Wilson (630) 288-8224

INSIDE SALES/CLASSIFIED

Jim McMurray (630) 288-8467

PUBLISHING SUPPORT: Linda Wojak (630) 288-8201 •••••

DIRECTOR OF MARKETING, EVENTS AND CUSTOM COMMUNICATIONS: MANAGING EDITOR, CUSTOM PUBLICATIONS: MANAGER, INTEGRATED COMMUNICATIONS: CIRCULATION MANAGER: PRODUCTION MANAGER: CUSTOMER CONTRACT COORDINATOR:

RESEARCH DIRECTOR: INTERIM DIRECTOR, ELECTRONIC MEDIA: Kim Kishbaugh

WEBSITE MANAGER: Gregory Sokolowski

Carole Widmayer Alison Otto Maria Q. Santonato Kati Tucker **Joyce Simon** Joanne Westphal Peter Cholewinski

CHAIN LEADER is published monthly for executives of multiunit restaurant companies by Reed Business Information, a division of Reed Elsevier Inc. Subscriptions are \$109 per year in the United States, \$131 per year outside the United States.



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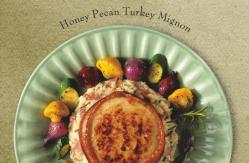
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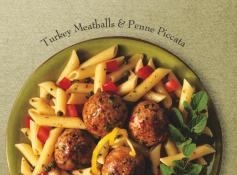
Well said. Today's customer wants variety, and throwing a fancy title, or a new kind of cheese on a hamburger is hardly distinct.

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State of Hyperactivity

A financial guru ponders the outcome of the rush to buy and sell.

BY DAVID FARKAS

he current rash of buying and selling companies is keeping financial adviser Jim Parish of Vancouver, Wash.-based Parish Partners in high demand. *Chain Leader* talked to Parish about the state of the industry.

What do so many deals these days say about the health of the restaurant industry?

The industry has been behaving pretty well for the past five years or so. Publicly held companies have tacked on impressive gains in market prices, comparable sales and average sales overall have been positive, growth has proceeded, and costs are behaving, too. Food commodities have been volatile by component from time to time, but overall costs have been manageable.

On the negative side, restaurant companies are seeing negative traffic counts due to a variety of factors including competition and aggressive menu price increases.

Do the generally high multiples fairly represent the underlying value of the chains switching hands?

To me fair value is determined by what someone will pay, so I'd have to say that right now, these transaction prices represent fair value—right now.

My personal opinion is that values are inflated by factors including lower cost financing, abundant (some say excess) capital chasing deals, and many new faces directing investments in the industry. It's not smart to pay up for restaurant businesses to the levels we've seen recently. At the levels some of these companies are being valued, there is absolutely no room for mistakes—and mistakes will happen.

Do you see a slowdown in the number of transactions this year?

I see the number of transactions leveling off but not slowing down. Low financing costs, plentiful bank and senior capital, and many new capital pools with seemingly unlimited resources are going to support this activity for a while. And since so many of the restaurant deals done in the private side of the market are being done by investors new to the area, it may take a while for the realization to sink in that returns are harder to come by than originally thought.

What advice are you offering sellers about how to value and position a company in today's transaction-oriented market?

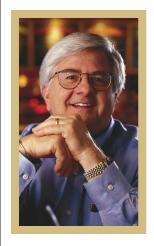
Just being in the restaurant business gives much more visibility than in years past. For many years the restaurant industry was shunned by all but a few private-equity firms. [They] are sellers, by and large, these days. That should tell us something.

I don't think the advice I would give is any different than five or 10 years ago. The most absolutely critical factor in restaurant success is management. So the first criterion for me is excellence there. The time spent on identifying, culturing, mentoring and developing management at all levels is the absolute highest priority.

Are we now moving into a lesserquality deal phase?

That's very hard to answer, since "quality" is so hard to define. Certainly some fine companies have been acquired, financed or drawn into the public sector in the past two years. And some not-so-fine companies have, too. My opinion is that the capital now being deployed in restaurants is by and large new to the industry and perhaps less discriminating as to "quality." You can argue that new capital brings fresh ideas, which is why the outcome of this cycle will be so interesting.

To read more about Jim Parish's take on the financial status of the industry, visit www.chainleader.com.





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UPSTARTS



Zea's New American cuisine incorporates regional and ethnic flavors in dishes like Thai Ribs.

Averaging 6,500 square feet with seating for 200, a Zea unit costs between \$1 million to \$1.5 million to open.

SNAPSHOT

CONCEPTS

Zea Café, Zea Rotisserie & Brewery, Zea Rotisserie & Grill, Zea WoodFire Grill

PARENT COMPANY

Taste Buds, New Orleans

UNITS

9

2005 Systemwide Sales

\$21.95 million

2006 Systemwide Sales

\$34.2 million (company estimate)

AVERAGE UNIT VOLUME

\$3.7 million

AVERAGE CHECK

\$16 to \$17

EXPANSION PLANS

2 or 3 franchises and 2 or 3 company stores per year for the next two to three years



Back on Track

Zea returns to growth mode after rebounding quickly from Hurricane Katrina. By MAYA NORRIS

he most devastating hurricane of the season wasn't enough to keep Zea down for long. The New Orleansbased chain known for its eclectic, rotisserie fare was back in business soon after Hurricane Katrina hit the Gulf Coast in August, ending the year with higherthan-expected sales. Now it is resuming its plans to expand beyond the Big Easy.

The Comeback Trail

Zea's Alabama unit and five Louisiana stores, including one in New Orleans, did not sustain major damage from the hurricane, so they all reopened by December. But not without difficulty. Two days after the hurricane, co-founder and Co-President Greg Reggio rented two semitrailers and hired drivers to transfer Zea's food to a storage and distribution facility in Baton Rouge from its local distributor in New Orleans. Due to the labor shortage and distribution problems, the units initially served a limited menu, with front-of-the-house employees pulling double duty in the kitchen.

Yet Zea finished 2005 with a same-store-sales increase of 7.8 percent, and EBITDA improved 36.6 percent.

Now Zea wants to focus on what it says separates it from other upscale-casual chains: It features New American cuisine centered around rotisserie and wood-fire-grilled meats. Popular items include Zea Rotisserie Chicken, \$12.49; Thai Ribs, \$9.49 appetizer, \$18.99 entree, slow-cooked pork ribs with slightly spicy soy and ground chile glaze, garnished with sesame seeds, fresh basil, green onion and cilantro; and Twice Cooked Crispy Duck, \$16.99, slow-roasted, then fried in peanut oil, garnished with green onions, cilantro, sesame seeds and honey-soy glaze, and

served with Thai Green Dirty Brown Rice. But the chain also offers traditional American fare such as salads and sandwiches.

"Even though we've got all these exotic things going on—some cutting-edge items on there—you can come to Zea and get a great burger. ...There's enough of the basic items on the menu that I think pretty much anybody could be happy," Reggio says. "It's tough to eliminate Zea from a group dining decision because there's so many things on there that appeal to just about anyone."

Forging Ahead

But executing a menu of rotisserie and grilled meats is labor intensive. The meats take 90 minutes to cook and have short hold times. Chief Operating Officer Chris Rodrigue has been working on Zea's expediting system, including implementing new kitchen software and cross-training all staff.

Reggio and co-founders Hans Limburg and Gary Darling, who are trained chefs, have created uses for the meats once they are past their hold times. For example, the rotisserie chicken is featured in the Chicken Quesadilla, \$7.99, and the Grilled Chicken Zeasar Salad, \$9.99.

With these systems in place and all units operating again, Zea plans to open two or three company stores and two or three franchised units a year for the next few years in its current markets of Louisiana, Florida, Alabama and New Mexico as well as new areas such as Baton Rouge and Atlanta. It recently entered Texas thanks to Bill Hyde, former president and CEO of Ruth's Chris Steak House, who opened a franchised unit in Plano in January and will open another in Dallas by year-end.

The chain plans to have 100 restaurants nationwide in 10 years.





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"Victories II" Length: 30 seconds



1. Voice-over: Life is full of victories.



2. They come in all shapes and sizes.



3. Where can family and friends go to celebrate them all?



4. There's no better place for good times...

Continuing Education

Beef 'O' Brady's new ads teach consumers about what a family sports pub is.

f you aren't already familiar with Beef 'O' Brady's, you likely have no idea what the concept is. Irish pub? Steakhouse? Funny fictional moniker? "Our name does not tell people what we are. They think we are a sports bar," concedes Nick Vojnovic, president of the 21-year-old concept's parent company, Family Sports Concepts Inc. The chain is a family sports pub, which is a casual-dining-type joint with TVs and liquor licenses, but the emphasis is on kids and families rather than scores and draughts. "It's like when the SUV was introduced," Vojnovic says. "It was a new niche to the market."

Over the years, the Tampa, Fla.-based company has worked to help diners appreciate its uniqueness through home-grown

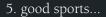
advertising and local marketing. Last fall management, with the help of Tampabased ad agency Hardee Group, came up with a campaign that explains the concept of a family sports pub with higher-end production values and something else: food shots. Strange as it may seem, the newest ad campaign for Beef 'O' Brady's is the first featuring food photography in its two-decade history.

This is not the first advertising switch the company has made. The first ad shift was after Family Sports Concepts took over the chain seven years ago. "When we came on board, we had a hokey little neighborhood thing," Vojnovic says.

"In 1999 it was just me, 35 stores and no outsourced [ad agency] help," agrees Vice President of Marketing Ken Hall.

By Margaret Littman







6. and great food...



7. than your neighborhood Beef 'O' Brady's.



8. See you at Beef's.

From the Top

Using in-house resources Hall created a campaign featuring company founder Jim Mellody looking straight into the camera and explaining the void the chain filled in the marketplace. The spots were not highend, but that Dave Thomas effect ushered in a "sales spike immediately," Vojnovic remembers, estimating that sales increased 10 percent annually with Mellody's testimonial ads.

After Sept. 11, 2001, changed the dining landscape and Mellody passed away in 2002, Hall and his team regrouped. They launched more sophisticated, edgy and humorous spots that assumed that everyone knew what Beef's (as its fans call it) was.

"We were getting ahead of ourselves," Vojnovic says. "We dropped off when we tried to be clever and funny." Same-stores sales were flat, while TV watchers were entertained rather than educated.

While some restaurant regulars have a remarkable frequency of dining at Beef's four times per week, the \$180 million chain also found that in Tampa, its hometown, consumers as close as 3 miles to its flagship unit had never heard of the brand. So the new spots needed to appeal to new diners, lapsed users and the occasional visitor.

The chain's franchisee advisory council urged management to include a consumer-education piece in its next ad campaign. The current spots answer the question, "What is a family sports pub?"

Not Going for Laughs

Debuting last September, the new 15- and 30-second commercials target both new

and loyal customers. They feature Girl Scouts, Little Leaguers, gymnasts and others celebrating childhood events at Beef 'O' Brady's, interspersed with food photography, and they end with the tagline "See you at Beef's."

Moving back to its core message has been an investment that has paid off. While the total ad budget was just \$500,000 in the Mellody days and \$100,000 in the early 2000s, today it is close to \$4 million. Since 2004 average unit volume has increased from \$640,000 to \$1 million. Vojnovic attributes approximately one-third of that increase to the new ad efforts.

Hall is charged with keeping the "What is a Family Sports Pub?" campaign fresh. The Hardee Group has been helping the chain develop four or five different versions annually, but much of the creative work is still done in-house.

The 2006 flight is likely to show Beef 'O' Brady's out in the community, as a large part of its marketing includes local outreach, such as to schools and community groups. The chain spends \$1.6 million on local marketing, in addition to the \$4 million it spends on traditional advertising.

As Beef's fills in existing markets instead of expanding into new states over the next five years, Hall has worked to improve those local marketing materials, as well as the menu and the Web site, without diluting the hometown message.

"There aren't that many restaurants that really welcome kids like we do. There's Chuck E. Cheese's, but that gives parents a headache," Vojnovic adds. "Beef's is like a big family room at your house."

SNAPSHOT

CONCEPT

Beef 'O' Brady's Family Sports Pub

PARENT COMPANY

Family Sports Concepts Inc., Tampa, Fla.

UNITS

190

2005

Systemwide Sales

\$180 million

2006 Systemwide Sales

\$230 million (company estimate)

AVERAGE CHECK

\$10

AVERAGE Unit Volume

\$1 million

2005 AD BUDGET

\$4 million

AD AGENCY

Hardee Group, Tampa, Fla.

EXPANSION PLANS

250 in 5 years

Chain Lader

Nov. 1-3, 2006 Westin Michigan Avenue Chicago

People You Want To Meet Information You Need To Know

Takeaway

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- What are the hottest up-and-coming concepts? At Chain Leader LIVE these concepts come to life on stage. Learn what's driving these chains and why patrons are flocking to their doors.
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James Greco



Reinhard Dorfhuber Senior VP Culinary Elephant Bar



Luke Belsito Red Robin



Rick Federico CEO, P.F. Chang's



Aslam Khan Falcon Holdings

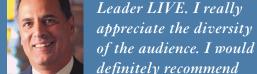
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Monica Hahn

SVP Mktg., New World

Restaurant Group



















ids waiting for their meal at Happy Joe's Cafez in Rockford, Ill., don't need crayons to keep them occupied. The restaurant's interior has enough to look at to keep even the squirmiest child happy.

A chandelier that's a tangled confection of wire and red and white light bulbs hangs in the entryway. The walls are painted a vivid pizza-sauce red and lime green. Dozens of decorative items, ranging from game boards and album covers to small

paintings and clocks, cover the walls. Curtains printed with oversize balloons hang in two corners of the restaurant, shielding circular, semiprivate dining areas from prying eyes.

With such a stimulating interior, it's hardly surprising that the architect, Rob Wilson, and the interior designer, Michelle Blunk, both are parents of children under 12. Larry Whitty, president of Happy Joe's, required that the principals on the project be parents of young children. It turned out to be a good call: "They nailed it," Whitty says of Wilson and Blunk's work.

By Lisa Bertagnoli



Right Move, Wrong Look

The redesign process started in 2001, the result of a bit of navel-gazing, says Whitty. "We were looking at the chain and saying, how do you take a 29-year-old company... where do you go?" Whitty recalls. Pizza, he adds, is a tough segment, especially for an established sit-down chain. "We targeted putting butts in seats," Whitty says. To attract more dine-in guests and expand into big-box suburban locations, the company repositioned Happy Joe's Pizza & Ice Cream into Happy Joe's Cafez, which has an average unit size of 4,000 square feet.

Market research and meetings with consultants and franchisees led to the 2002 renovation of a location in Bettendorf, Iowa, the chain's headquarters. But the interior package of gray, rust and light green "was too corporate," Whitty says. "We realized it was the wrong decor."

Franchisees also balked at the new look, calling it too urban.

"The change was difficult for everyone," Whitty says. "We did so much, so fast and so dramatically...it released an interesting wave of emotions."

The chain switched to a brighter palette of orange-tinged red and lime green. By 2004, it had remodeled five additional restaurants, all of which showed positive sales results. The next step was creating a freestanding prototype, which Whitty says is necessary for the chain to open in lifestyle malls and other big-box arenas.

At this step, Whitty enlisted the services of Wilson and Blunk. Whitty wanted the

SNAPSHOT

CONCEPT

Happy Joe's Cafez

OWNERSHIP

Happy Joe's Pizza & Ice Cream,
Bettendorf, Iowa

LOCATION

Rockford, Ill.

ARCHITECT

Rob Wilson, Joseph Architectural Group, Rock Island, Ill. Interior designer Michelle Blunk, Conceptual Designs, Bettendorf, Iowa

OPENING

Jan. 20, 2006

AREA

5,716 square feet

SEATS

224

AVERAGE CHECK

\$18.25

2006 UNIT VOLUME

\$780.000*

EXPANSION PLANS

2 to 4 this year

*Chain Leader estimate



Acoustic tiles dampen noise and add visual interest to Happy Joe's Cafez's dining room.

The Rockford location is about 1,000 square feet larger than ideal.





(Clockwise from top I.) A fanciful chandelier adorns Happy Joe's long entryway, which leads to the ordering counter.

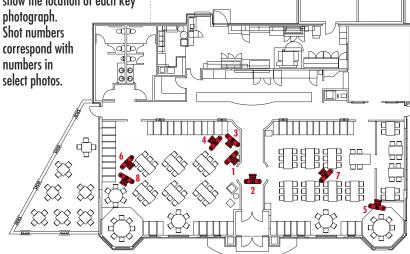
Booths and moveable tables and chairs are designed to accommodate large parties of walk-ins.

Game boards, album covers and other wall decorations give kids something to look at while they wait for their food.

A "pen" and neighboring arcade host children's birthday parties.

Direction of shot ■1—Shot No. Position of camera

This floor plan is designed to show the location of each key photograph.







Wood, drapes and upholstery make Happy Joe's Cafez relatively quiet even when at full capacity.

Cafez design to depart from Happy Joe's original Roaring '20s theme. "He wanted something new and fresh," Wilson says.

Blunk, who was responsible for the interior decoration, says she thought of her own children, who are 9, 6 and 3, when choosing the elements: "I thought, what makes me want to visit a restaurant?" Her answer: "Stuff to look at, when they've

already colored everything in sight."

Game boards, album covers, small flower paintings and other wall decorations give kids something to look at while they wait for their food. A train that runs on a track above the dining area—the only carryover decor from the old interior—also keeps kids entertained. Balloon-printed curtains, hung from the ceiling, enclose two private dining areas, while a "pen" and neighboring arcade host children's birthday parties.

Room for Improvement

According to Happy Joe's, sales are on track with expectations at the Rockford location, but the company won't release exact sales information. And on weekends, lines are so long that the chain had to invest in a pager system to accommodate waiting guests.

Still, Whitty wants to make some improvements in the design, which could reduce the cost by 20 percent. At just over 5,700 square feet, the Rockford location is about 1,000 square feet bigger than ideal. Booths are now 5 feet 10 inches on center;



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RESTAURATOUR

(Clockwise from top) Clocks and small flower paintings look like what might hang on a home-kitchen wall.

"Pizza-sauce red" paint echoes Happy Joe's signature product.

Balloon-printed curtains, hung from the ceiling, enclose two private dining areas.







Outside Happy Joe's Cafez, turrets are architectural elements; inside they create private dining areas.

MENU SAMPLER

BREAKFAST

Omelet Pizza: pan-style crust with customer's own egg creation on top; Little Joe, \$4.99; small, \$9.99; medium, \$13.99; large, \$17.99

SALAD

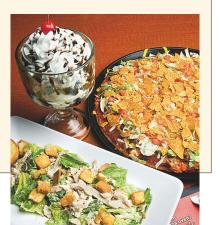
Chipotle Chicken Salad: chicken, special blend of cheeses, tomatoes, jalapeño bacon, flame-roasted corn and black beans, topped with tortilla chips, chipotle dressing and a wedge of lime, \$7.49

PIZZA

Taco Joe: refried beans, taco-seasoned beef and sausage topped with fresh lettuce, tomatoes and taco chips, served with Spicey Joe's taco sauce; Little Joe, \$5.74; small, \$10.84; medium, \$14.24; large, \$18.49

DESSERT

5-Spoon Cookies 'N Cream Sundae: hot fudge and five scoops of cookies-and-cream ice cream topped with more hot fudge, whipped topping and a cherry, \$5.99



they should be 6 feet on center for comfort's sake. The lower part of walls, below chair-rail level, needs to be a more durable material, perhaps vinyl. And an outdoor patio, with a complicated architectural overhang, "is overdesigned," Whitty says: "We could offer the same ambience for \$15,000 less."

Whitty has already made some changes. A corner filled with low, soft couches and chairs has been eliminated because the coffeehouse look "just didn't fit with families," he says. The space will be used to add 16 seats. Some design elements are still in the trial stage, for instance, the six flat-screen TVs, which play news during the day and cartoons in the evening.

Changes aside, Whitty is confident enough of Happy Joe's Cafez to convert existing units into the Cafez concept and to plan expansion into the Detroit and Madison, Wis., markets.

"I can't wait to build the next one," he says.



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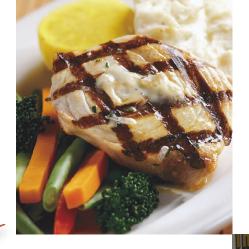


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- Snacking, small plates and tapas are top trends on chain menus.¹
- 38% of all table service restaurant diners who usually/sometimes order a dessert prefer to share it with others.²
- Desserts are back–servings grew over 4% last year–that's over 248 million more desserts.3

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Mitchell's retooled Simply Grilled plates to include potatoes blended with butter, dairy and scallions; veggies more precisely cut; and fish with a sweet butter and scallion finish.

Executive Corporate Chef Wayne Schick has revamped Mitchell's Fish Market's fish and nonseafood categories while also improving the consistent execution of the menu.

eing head chef in a company full of chefs has its plusses. Just ask Wayne Schick, vice president and executive corporate chef at Columbus, Ohio-based Mitchell's Fish Market, where culinary-

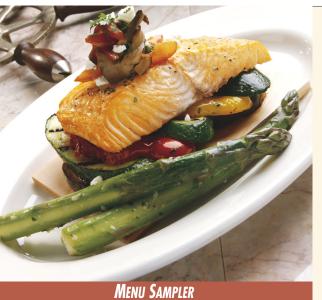
school-trained chefs head the kitchens at all 14 units. He'll tell you there's no lack of creativity. Everyone can execute to a high level. And there's a built-in mentor in founder Cameron Mitchell, himself a Culinary Institute of America grad.

But on the flip side? "You've really got to put your pride in your back pocket," says Schick, who focuses his talented team on Mitchell's mantras: Nothing goes on the plate unless the consumer wants it there. And it's not the lofty and unusual recipes that win repeat business but excellent execution of the accessible.

It may be tedious to play those songs over and over again, but the results have caught analyst attention. "Cameron Mitchell is a company worth watching precisely because of its thoughtful and consumer-focused innovation," says Dennis Lombardi, executive vice president of foodservice strategies for Columbus, Ohio-based WD Partners, a restaurant strategy and design consultancy. "They understand that really good food doesn't have to be complicated, just well executed. When a cus-

> Wayne Schick reshapes Mitchell's Fish Market's menu with extraordinary yet accessible dishes. By Monica Rogers





APPETIZERS

Seared Rare Salt 'n Pepper Tuna, with apricot-ale sauce, sesame crackers, pickled cucumber and wasabi, \$9.50

SALADS

Citrus Salmon Salad: arugula, greens, cashews, goat cheese and fresh poached salmon in citrus vinaigrette, \$10.95

SPECIALTIES

Chesapeake Bay Crab Cakes, with scallion mashed potatoes and sweet-corn saute, \$21.95

COMBINATIONS

Shang Hai Sampler: fresh Atlantic salmon, scallops and shrimp, with spinach, sticky rice and cucumber-wasabi slaw, \$18.95

KIDS MENU

Shrimp Garganelli: gulf shrimp and garganelli pasta tossed with house-made marinara and Parmesan, \$7.95

DESSERT

Sharkfin Pie: butter-fudge ice cream, honey-roasted peanuts, fudge and peanut butter in a cookie crust, \$6.50

Cedar Roasted Atlantic Salmon, newly paired with honey-balsamic eggplant, roasted vegetables, asparagus, portobello relish and goat cheese, is a best-selling entree. tomer leaves Mitchell's, he leaves saying, 'Man, those were mashed potatoes just like mom used to make!' Or more likely, 'Man those were mashed potatoes I wish my mom used to make."

Funny Lombardi should mention potatoes, because they are a good example of the customer-focused innovation. Last year, Mitchell's started mixing hot butter, milk and scallions into its garlic mashed potatoes to order. Then the chain stopped adding herbs to potatoes and veggies for kids' plates.

"Scallions in the mashed potatoes, pieces of green pepper in the buttered corn, pars-

ley salt on the french fries. Kids hate that," Schick says. "So when we get an order from the kids' menu, we keep the butter in and the little green bits out."

Basic Retooling

Potatoes are just the start. To make the "ordinary extraordinary," Schick reshaped recipes in several menu categories throughout 2005, without major impact on food or labor costs.

Starting with the most basic, last spring Schick retooled the Simply Grilled fresh fish category, which offers 10 selections daily. Besides sprucing up the potatoes, he added a touch of fresh minced shallot to the sweet-butter finish on the fish and made knife cuts more precise on the veggies. "We've vowed never to chop up a fresh vegetable again," Schick says.

"We touched and studied everything about the Simply Grilled category, even switching to a new, oval plate, which we felt better enhanced the natural shape of the fish," he adds.

Other fish fixes include a new presentation and sides for blackened fish, which used to come with mashed potatoes and vegetables. The fish is now rubbed with Bayou Cajun spices, pan-blackened and served over shrimp jambalaya with green beans and mushrooms and finished with dark-roux-étouffée sauce and cane syrup. Guests like the changes: Sales of blackened fish are up 9 percent.

Schick also tweaked Garlic-Broiled Shrimp, \$17.95, a top-selling Chefs Specialties entree that operations felt had more potential. Rather than just present the shrimp on a plate, it's now presented on a skewer with cloves of garlic confit; the skewer is removed tableside.

One more change: this section's Cedar Roasted Atlantic Salmon, \$19.95. Perched on a small cedar plank, the fish is topped with portobello relish and goat cheese, and newly paired with honey-balsamic egg-

Lunch and dinner menus are printed daily at Mitchell's Fish Market to allow for changes in availability.

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TOQUE OF THE TOWN

Mitchell's new expanded kids' menu has helped increase traffic and the average check.

The vastly expanded kids' menu now features seven junior portions of fresh crab cakes, grilled salmon, filet mignon and other entrees, combined with salads, sides and signature desserts.

plant, roasted vegetables and asparagus. Formerly, the fish came on a bigger plank with mashed potatoes, green beans and pico de gallo. One of the top-five sellers at lunch and among the top 10 at dinner, the

new version represents about 5 percent of lunch entree sales—a 30 percent increase over sales of the former version.

Working with fish has come easily to Schick. Although he grew up in a Midwest farming community, he says he took to seafood, well, like a fish to water. Schick, who did not go to culinary school, first learned seafood as part of a three-year apprenticeship at the Westin Hotels. Following stints at several restaurant companies, Schick served as executive chef of Charlie's Crab, a Chuck Muer Restaurant, for five years. He then came to Cameron Mitchell Restaurants, where he worked one year at the Cap City Diner before helping to develop and launch Mitchell's Fish Market in 1998.

SNAPSHOT

CONCEPT

Mitchell's Fish Market

PARENT COMPANY

Cameron Mitchell Restaurants, Columbus, Ohio

UNITS

14

2005 Systemwide Sales

\$56.2 million

AVERAGE Unit Volume

\$4.7 million

AVERAGE CHECK

\$19 lunch, \$38 dinner

EXPANSION PLANS

3 in 2006

Walking the Line

"I find seafood to be very complex and rewarding," says Schick, who has been a seafood chef for about 14 years now. "The diversity is incredible. Even featuring 12 different species—as we do at Mitchell's every day—that barely dips into the hundreds of possibilities."

Staying up to date on seafood supply, demand and fishing practices takes considerable commitment. He spends about 40 percent of his time on procurement. "We walk the line between what the customer demands and what's right for the world's oceans," he says.

The rest of his time is devoted to operations, consistent execution of the menu, menu development, and executive- and regional-chef development.



Schick's own development started early on. He grew up in a family of eight with back-acre groves of fruit trees, berry patches, red currant bushes and a prolific vegetable plot. "Every year was full of planting, tending, canning and freezing every fruit and vegetable that would grow in Ohio," he says. Schick tried all sorts of culinary experiments with broccoli, beans and cauliflower. He was cooking family meals by the time he was 12. "Being a large family, we all helped," he says. "It was either wash the dishes or cook the meal. Cooking sounded more fun to me."

Big Fish, Small Fish and Nonfish

Staying in touch with that kid-like enthusiasm for fresh, wholesome ingredients made it easier for Schick to create Mitchell's successful new children's menu. Since its spring 2005 launch, the menu has helped increase traffic from families with young children by about 5 percent to 10 percent and has doubled kid check averages to \$7.40 from \$4.95.

Replacing a short list of kid favorites that had a few fish options thrown in, the new menu rolls the original six options into one Little Fish section. A new Big Fish category includes seven junior-sized meals such as the Chesapeake Bay Crab Cake plate, \$8.95, with mashed potatoes and sweet corn. He also added a nine-item Sides and Salads section, which includes fresh strawberries, sweet corn and shoestring french fries, plus two specialty desserts.

Improving and expanding nonseafood options has been an important strategy at

"Do you serve anything that will bore me to tears?"

One thing's certain. Nobody opens a menu hoping to find a nice, hot plate of mediocrity. Veer away from the ordinary with dishes like Sesame Plum Pork Loin or Rum-Roasted Pork Negril. To find out how The Other White Meat can add variety and excitement to your menu, visit www.theotherwhitemeat.com/foodservice.





Mitchell's retooled several fish dishes with new presentations and side dishes.



"Big eyes, gaping mouths," was the reaction Mitchell's aimed for with mammoth desserts such as the ultra rich Java Lava.

Mitchell's, as well. Last spring Schick added Spinach and Artichoke Dip with Garlic Pita Chips, \$9.95, which is now "near the top" of the appetizer menu in sales, he says.

In the steak section, he added a 16-ounce rib-eye, \$26.95, and a 10-ounce prime sirloin, \$22.95, smothered with garlic shrimp in garlic-wine sauce. Schick made presentations more "chop house" in style, switching to new plates and

increasing the portion size of side dishes by 25 percent.

Side dishes also now merit their own menu category. "Previous to this we didn't have side dishes offered as a la carte items," he says. "But this seemed to fit the chophouse approach better."

Schick has also worked to improve the menu behind the scenes. To smooth kitchen throughput, he eliminated or altered several dishes that had relied on crossover from multiple stations. "These were items that would start at the saute and then go to the grill or fry station to be completed," Schick explains. For example, he removed Hot & Sour Swordfish from the menu because it had jalapeño-jelly-glazed bell peppers from the saute station, fried onion straws from the fry station and glazed swordfish from the grill.

But Schick saved complicated dishes: The Market Trio, \$19.95, one of the topfive-selling entrees, used to be passed from the saute station, where blackened mahi mahi and cedar-roasted Atlantic salmon were plated, over to the grill station for the addition of Shanghai scallops. Speeding the process, cooks now plate scallops on a separate rectangular side dish that nests into the serving platter. "The effect of eliminating all that passing around was very dynamic, speeding service and allowing us to better and more consistently produce," Schick says.

Chef-Driven Passions

While many execution efficiencies come from corporate, chefs are free to create their own daily specials, some of which make it to the core menu. "It's imperative for us to keep the chefs involved in the menu," Schick says, "both for their own personal gratification and ownership, and because the concept benefits from more ideas. We work as a team, and in nine years, I have rarely created a new dish by myself."

An amalgam of the best ideas makes it to the core menu. Case in point: Mitchell's retooled Cedar Roasted Atlantic Salmon to eliminate starches and enhance its roasted flavors. Three to five chef teams presented ideas for how to accomplish this. Schick married two of the ideas—honey-balsamic eggplant and roasted vegetables, and the portobello relish—in the new dish.

Unit chefs will also work with Schick to drive guest counts at lunch with items that differentiate lunch from dinner. "Specialty sandwiches, salads and nonfish dishes, things like that," says Schick. The company is also testing new presentations for rawbar items, tableside whipped cream service for desserts, and more fresh fruit juices and garnishes at the bar.

Chefs are already flexing their creative muscles for show-and-tell sessions this spring and fall. They will showcase some dishes they have featured as specials, some tailored to Schick's requests for items he wants to add or revamp this year, and others completely blue-sky.

But one thing's certain: "When you get three or four chefs working on the same new menu item, everyone will bring something to the plate," Schick concludes.

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SNAPSHOT

COMPANY

Il Fornaio Corp. of America

CONCEPTS

Il Fornaio, Corner Bakery Cafe

HEADQUARTERS

Corte Madera, Calif.

2006 REVENUES

\$360 million* (company estimate)

UNITS

27 Il Fornaio,92 Corner Bakery

AVERAGE Unit Volumes

\$5.2 million, Il Fornaio; \$2 million, Corner Bakery

AVERAGE CHECK

\$21, Il Fornaio; \$7.44 Corner Bakery Cafe

EXPANSION PLANS

6 to 8 new Corner Bakeries in 2006, 1 Il Fornaio in 2007

*Includes sales of \$20 million from three wholesale bakeries



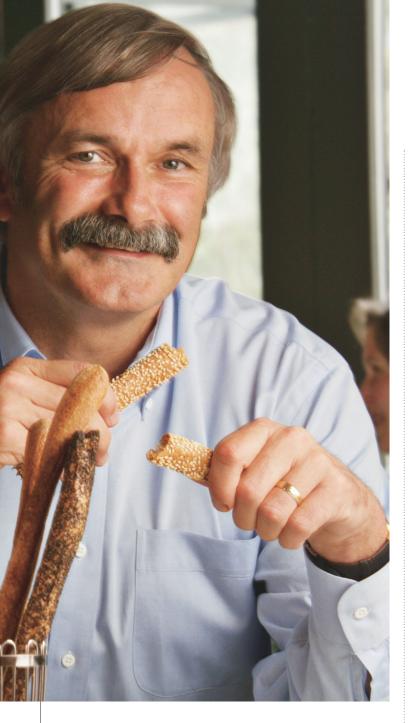
Il Fornaio's acquisition of Corner Bakery could mean the fast-casual concept is on the rise.

By David Farkas

Chairman and CEO Mike Hislop plans to grow Corner Bakery rapidly with the bakery-cafe's existing management. l Fornaio, which means "the baker" in Italian, is putting its CEO's expertise to the test. But baking skills aren't required. Instead Chairman and CEO Mike Hislop will have to find a way to uncork the growth potential of Corner Bakery Cafe, which 27-unit Il Fornaio and its largest shareholder, Bruckman, Rosser, Sherrill & Co., acquired from Brinker International in February for \$72.5 million, according to documents filed with the Securities and Exchange Commission.

Since 2003, when the limited-service chain grew by 13 units, Corner Bakery has added just 11 units and will only open six to eight this year. By contrast, bakery-cafe leader Panera Bread Co. swelled by 139 units in '05 and expects to open 136 in '06.

Hislop, however, believes he has the answer: franchisees and an experienced management team that



includes COO Jim Vinz, Vice President of Food and Beverage Ric Scicchitano and Vice President of Human Resources Denise Clemens. Vinz and Clemens have been with the concept since Dallas-based Brinker acquired it in 1996; Scicchitano, a culinary-school-trained chef and certified baker, was part of Corner Bakery's founding team at Chicago-based Lettuce Entertain You Enterprises. "We're just going to continue with the [sites] pipeline and the people," Hislop says.

In February, Corner Bakery named P.J. Evans, an experienced franchise executive who once worked for Panera, as vice president of franchising. Hislop expects the first franchise units to open in '07, but no agreements have been signed. Although he hasn't decided on franchise territories, it's likely Corner Bakery's smaller markets—Atlanta, Houston, Denver—could be offered to franchisees. For one thing, Crestone Group, the

chain's par-baked bread and pastry vendor, already services those areas. For another, the more units in a market, the better the sales because of brand awareness.

Panera, of course, has demonstrated the \$2.4 billion bakery-cafe segment is franchisable. So have sandwich chains, which rang up \$16.8 billion in sales in '04, according to Chicago-based Technomic Inc. And while neither segment has shown explosive growth recently, certain players—Panera, Quiznos and McAlister's Deli among them—are attracting battle-tested franchisees capable of opening multiple stores in single markets. In fact, Panera recently slowed franchise development because franchisees were growing too fast, outstripping the company's infrastructure, officials announced.

Appealing to Franchisees

Part of the bakery-cafe segment's appeal for franchisees is the ability to maintain rising same-store sales. Corner Bakery, the segment's fourth largest chain, according to Technomic, has posted same-store gains for 13 consecutive quarters, Hislop says, adding the gains (as of last October) were "significantly above 2 percent." There's no way to verify the assertion because Brinker didn't report Corner Bakery comps and Il Fornaio is private.

"Plenty of people are eager to invest [in a Corner Bakery franchise]," Hislop says, without giving names.

He also credits a 3,000- to 3,300-square-foot prototype that seats 100, introduced in 2001. Prior to it, unit size often depended on available real estate; existing units range from 750 square feet to 8,000 square feet. Former Brinker CEO Ronald McDougall once called Corner Bakery "our most versatile concept."

Service also changed with the prototype that debuted in Skokie, Ill. The chain scrubbed its cafeteria line for menu boards, multiple cash registers and semi-service. Guests placed an order, took a number and sat down. An employee brought the food to the table.

The shift, prompted by suburban dining habits, helped trim costs. Food no longer deteriorated on steam tables during the longer breakfast and lunch dayparts in the suburban stores. "Having food on display was not cost-effective," recalls David Wolfgram, Corner Bakery's president from 1997 to 2003.

Last year, the chain installed a kitchen display system to improve order accuracy. It also boosted manager training. A new POS system rolls out this summer.

The biggest change still remains the service component. Lettuce, after all, founded Corner Bakery as an urban concept for hungry people in a hurry. The first unit was attached to Maggiano's Little Italy, to which it supplied bread. But under Brinker, whose orientation is suburban, Corner Bakery quickly grew in malls and strip centers.



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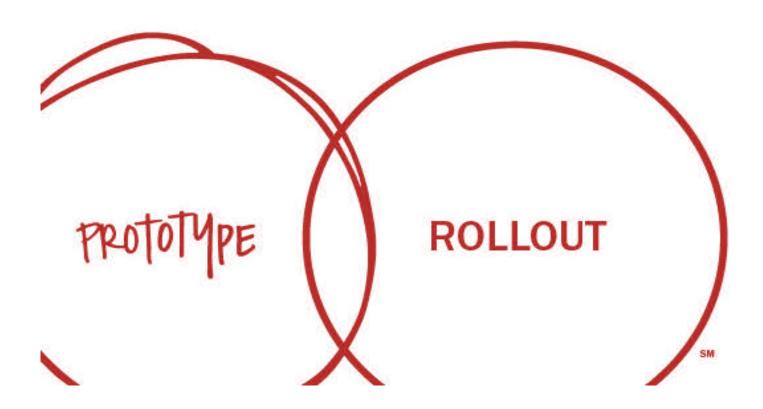
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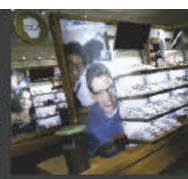
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"We had a UFOC finalized with Brinker, but now we have to look at it to make sure it's ready to take to market."

—Jim Vinz, COO, Corner Bakery

Vinz adds the behind-the-scenes work has strengthened unit economics. "There's always work to do, but we feel very good about the business model," he says.

One area still in need of help: marketing. Corner Bakery has not yet replaced Nancy Hampton, former vice president of marketing, who left for Macaroni Grill months prior to the acquisition. Hislop meanwhile questioned the effectiveness of the chain's advertising messages, delivered via freestanding inserts, direct mail and table tents. "[Hislop] has a lot of ideas on marketing and how we measure programs," Vinz explains.

One of Its Own

Hislop also has ideas about baking, to which Il Fornaio is no stranger. The 19-year-old company traces its roots to a retail bakery in Milan, Italy, brought to California in 1981 and expanded. Foodservice veteran Larry Mindel acquired the four Il Fornaio bakeries six years later, opening an Il Fornaio dinner house with a bakery in Corte Madera, Calif. The concept, known for its breads, now operates 27 restaurants in four Western states and three wholesale bakeries. Hislop signed on in 1995.

He had already put in some hard work researching bakery cafes for Il Fornaio and came up with a concept two years ago. Some of the units already sold pastries and coffee in the morning but as a sideline to its busy lunch and dinner periods. To test what someday might become a branded concept, Hislop spent \$80,000 to remodel a 750-square-foot space inside the Il Fornaio in Irvine, Calif. It quickly added \$10,000 a week to bakery sales. "Our [bakery] sales doubled," Hislop says. He later remodeled units in Beverly Hills and Seattle with similar results.

Then the Corner Bakery deal came along. Hislop dropped his own cafe concept with the blessing of BRS.

"This is a great segment. We think we have a good concept and economic

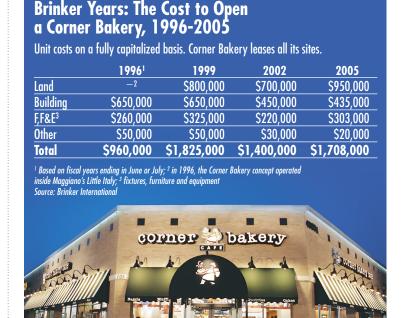
model," asserts BRS Managing Director Hal Rosser, who had previously invested in Au Bon Pain, the urban sandwich chain cofounded by Panera Chairman and CEO Ronald Shaich. "I feel this is a great opportunity for us and for [Hislop]."

Although Corner Bakery generates respectable sales, particularly in booming Southern California, Hislop still has to pick which markets to franchise, decide whether to franchise stores in smaller, less lucrative markets like Atlanta and Denver, and determine the proper blend of franchise to company units. Not surprisingly he is spending most of his time on Corner Bakery, having turned over Il Fornaio operations to Michael Beatrice, that chain's president and chief operating officer.

Il Fornaio CFO Sean Maloney, meanwhile, has been immersed in the intricacies of the transition agreements he hammered out with Brinker. One of the touchiest involved exposing Brinker's proprietary software to a financial services company called Servista, to which Il Fornaio is outsourcing Corner Bakery's reporting func-



With the shift to limited service, Corner Bakery trimmed costs because food no longer deteriorated on steam tables during the longer breakfast and lunch dayparts in the suburbs.



COVER STORY





Investment costs to open a Corner Bakery on a noncapitalized basis is less than \$1 million.

Il Fornaio (below) is looking into having its wholesale-baking division ship par-baked products to at least part of the Corner Bakery system.

Corner Bakery says it posted 13 consecutive quarters of same-store-sales gains.

tions as well as payroll and benefits administration. "They have a very good system," Maloney explains, "and it's not something they want everyone to see."

Rumored ROI

Then there's Corner Bakery's allegedly low returns, rumors of which have circulated for years. Some industry observers suggest it was the reason Brinker wanted to get rid of Corner Bakery. Publicly, the casualdining giant announced it wanted to concentrate on its core brands of Chili's, Macaroni Grill and On the Border.

Some have charged the Corner Bakery units are too expensive to build and maintain and often too large. In its '05 10-K, Brinker reported the cost to open a unit on a fully capitalized basis in fiscal '05 (ended July) was \$1.7 million.

Although neither Hislop nor Vinz will reveal specific unit economics (management is currently filing a Uniform Franchise Offering Circular), both insist the investment costs throughout the country are less than a \$1 million on a noncapitalized basis (Corner Bakery leases all its sites). That makes for a sales-to-investment ratio better than 1-to-1, Hislop says.

Still, he admits it's a challenge to achieve it, particularly in California. "We have to be able to do above \$2 million [in sales] and try to keep that investment around \$1 million. That's not a no-brainer," he admits.

As Brinker may have discovered. It picked up the then-eight-unit chain in the 1996 Maggiano's stock deal with Lettuce and grew it quickly. Brinker liked freestanding units, expanding the bakery-cafe concept into multiple markets. It also built "fresh bake" facilities in these markets to produce bread and pastries.

"In those days, we had a hub-and-spoke system and a 150-mile delivery radius. It wasn't a cost-effective model for franchisees," recalls Wolfgram, now on the board of Boudin Sourdough in San Francisco. Brinker sold all but one of the baking plants, in Chicago, to Crestone last July.

Just Around the Corner

Now Hislop wants to expand Corner Bakery rapidly. After opening six to eight restaurants this year, he plans to open about 20 units a year. He says Southern California could hold as many as 40 to 50.

"If that's the plan, Mike will get it done. He is one of the best operators out there," declares Flat Rock Grille CEO Fred LeFranc, Hislop's colleague at El Torito in the early '90s.

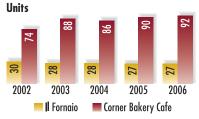
Also in the future, Hislop and Rosser believe there may be synergies on the wholesale-baking side. Il Fornaio operates a thriving bakery division that will rack up sales of \$20 million this year supplying bread and pastries to third parties and its own restaurants. The bakeries—two in California, one in Denver—could one day ship par-baked products to at least part of the Corner Bakery system, including franchisees.

There may be culinary connections, too, but they're also a long way off. Says Hislop: "With what Ric is doing, we have enough products coming out that I don't think they need to meet with our people."

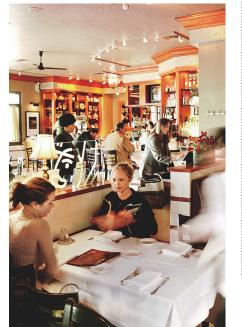
Tale of the Tape

Systemwide Sales (in millions)





Source: company reports; Restaurants & Institutions' Top 400; *company estimate; **Chain Leader estimate





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Subway's purchasing co-op's promotion software keeps track of product to avoid shortages and gluts. By Mary Boltz Chapman

SNAPSHOT

CONCEPT

Subway

HEADQUARTERS

Milford, Conn.

Purchasing Company

Independent Purchasing Cooperative, Miami

UNITS

20,000 (IPC supported)

2005

\$7.2 billion (U.S.); \$816 million

AVERAGE CHECK

\$6.00 to \$6.50*

(Canada)

EXPANSION PLANS

About 10 percent annually*

*Chain Leader estimate

IPC's promotionmanagement software helped suppliers determine how much chicken tenders they needed for Subway's new Toasted Chicken Parmesan sub. hen Subway rolled out its Toasted Chicken
Parmesan sandwich in
September, it had a new tool to help ensure its operational success. Independent
Purchasing Cooperative, the Miami-based supply-chain management organization of U.S. and Canadian Subway restaurants, used Web-based software to look inside the product pipeline and carefully monitor and alter its flow.

IPC, which represents about 20,000

NEW CHICKEN
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and Melted Cheese

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Subway units in North America, began testing the promotion-management system in mid-2005. The technology is meant to make limited-time offers, promotions, product tests and rollouts more profitable by preventing the chain from running out of product or from having leftover inventory. It automatically sends daily reports to IPC, allowing the co-op to see what its distributors have on hand and what they have ordered from manufacturers. The software also enables IPC to set limits, telling the system to send an alert if inventory levels get too high or too low.

Roll with the Changes

The Chicken Parmesan sub features a new product, breaded chicken tenders, topped with marinara sauce and cheese, then toasted. IPC used the data to help the suppliers determine when they needed to produce more chicken tenders and when to slow down. "It was a national launch, so



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New software lets Subway's purchasing co-op proactively ensure distributors have the right levels of inventory.





we were using the information daily to see how the distributors were selling the product, how they were tracking week-to-date, so that we could see when the inventory and sales started to level off at the distribution centers so we could tell suppliers to scale back on their production," explains Beth Gambrell, IPC purchasing manager.

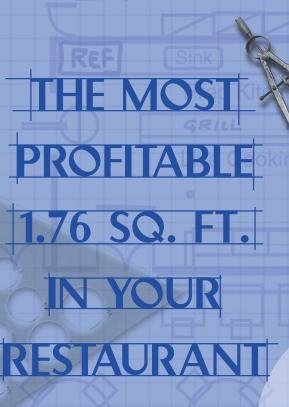
She tells of an instance when a distribution center looked like it was running low, and they hadn't placed an order yet. "We contacted the center and recommended that they might want to place an order, that based on what we were seeing, they would potentially run out of stock," she says.

Saving Time and Money

The system is different from Subway's procurement software, in that it enables IPC to see what distributors actually have on hand, what they are selling and what they have on order. In the past, if the co-op wanted that information, it would have to phone each distributor to request the information, wait for it, then translate the data from each distributor's reporting system. That's assuming each distributor answered the request.

"That information is necessary because when we bring in new items and we are testing them or they are limited-time only and we are trying to determine if they will become permanent menu items, we want to see what the sales are on a weekly basis, sometimes even daily," Gambrell says. IPC then can ensure that manufacturers are keeping up with demand. Or if the item isn't meeting expectations, that suppliers are adjusting production accordingly.

Ten years ago Subway didn't do a lot of new product introductions, so there weren't a lot of changes to the menu. But now, the chain might have six different



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"Inventory is real dollars that are not making any money just sitting there."

—Dennis Clabby, vice president of purchasing, Independent Purchasing Cooperative





IPC's software prevents Subway units from running out of product or having leftover inventory.

sandwiches in test markets at the same time as a national limited-time offer.

"If we didn't manage those inventories, we could end up either advertising something we don't have to sell and running millions of dollars of advertising for naught, or we might finish a promotion and have millions of dollars of inventory sitting at the distribution centers or at the manufacturers because the promo or test did not go well," IPC Vice President of Purchasing Dennis Clabby explains. "We look at our role as one to reduce costs to the franchisees. And those are significant costs that will eventually find their way back into our system."

Future Development

Clabby hopes the next step in the software's development will be to allow access to the chain's manufacturers, so they can better plan production and be proactive on their own. He says it would allow suppliers to even out production, helping to eliminate rush orders and overtime, and ultimately keep costs low.

Redwood City, Calif.-based Instill Corporation, which developed the promotion-management software, also serves as IPC's procurement-system supplier. Jeff Smith, Instill's vice president of marketing, says the new software also has functions to collect franchisee commitments prior to a test or promotion and to analyze the results, but IPC is not yet using them.

Subway's results are analyzed at corporate headquarters in Milford, Conn. Neither the chain nor IPC is able to quantify the software's success.

But, Clabby says, "We consider a successful promotion or test is done when we've minimized the cost, minimized inventory and made sure that everyone had product when and where they've needed it."

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Dinner by the Slice

Pizza continues to dominate the fast-food dinner business.

BY MARY BOLTZ CHAPMAN

or quick-service dinner trends, just look at the pizza segment. While national pizza chains receive 17.6 percent of all past-month purchase occasions, a 21-quarter average shows, they garner fully 29.8 percent of past-month dinner occasions, according to the quarterly Quick-Track survey by Sandelman & Associates, a San

Clemente, Calif.-based research firm. Pizza chains' share of dinner occasions even surpasses burger chains' 29.6 percent.

Among the study's other results:
• Dinner comprises 41.5 percent of all fast-food occasions, virtually the same share as lunch (41.9 percent), according to a 21-quarter average. Breakfast makes up 11.0 percent of QSR occasions; snacks, 5.6 percent.

• 41.0 percent of fast-food users having dinner on their last occasion ordered pizza; 25.6 percent of all users did.

• 25.2 percent of customers who had dinner on their last QSR occa-

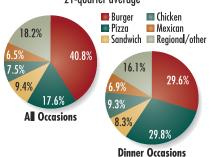
sion did so on a Friday. 20.1 percent of all users' most recent occasions were on Friday.

 Of those patrons eating dinner on their last occasion, 36.3 percent used carryout; 23.7 percent used the drive-thru; 20.3 percent ate in the restaurant; and 19.8 percent had their meal delivered. Of all quick-service occasions, 23.2 percent were carryout; 40.4 percent, drive-thru; 29.6 percent, eat-in; and 6.6 percent, delivery.

- A 21-quarter average shows that fast-food customers having dinner on their last occasion paid more per person than the alloccasion average: \$4.96 vs. \$4.74.
 - 28.8 percent of

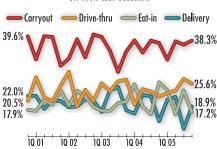


Share of past-month purchase occasions, 21-quarter average



Take it Away

All QSR users whose meal was dinner on their last occasion

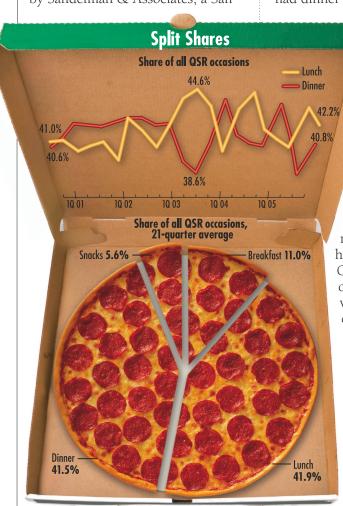


those having dinner used a special deal or promotion; 21.8 percent of all QSR users did.

• Dinner time is likely to be family time. According to a 21-quarter average, 41.5 percent of respondents whose most recent QSR meal was dinner were with their spouse and 35.7 percent were with their children. Of all users, 30.4 percent were with their spouse on their last occasion and 27.4 percent were with their kids.

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 dinner users" as those who have purchased dinner at one of the tracked QSR chains at least once in the past month. Most-recent purchase data is based on all QSR users whose last QSR purchase was at dinner.



Franchise Developer

New Area Development Niches

ith the right strategies, area development is a fast-track vehicle for portfolio and profit growth. If adding a territory for a second brand or expanding potential with a multicity or statewide territory is a priority, consider an underpenetrated, easily differentiated niche, recommends Michael Beam, managing director, HVS Restaurant Management & Advisory Services, Mineola, N.Y. These key questions will help narrow the field among young franchise companies:

- Does the franchisor own and operate any of the units? "With a young brand, you don't want ownership to be running only test kitchens. You want ownership that is actively involved in and savvy about operations," says Beam.
- What are you getting for your fees? "In return for your fees of 9% or more, you should be getting compelling marketing and advertising support, benefits of scale and a defined brand image,"

Beam advises. "You don't want to partner with a company that does not have a clear picture of what its brand is all about and where it's going."

• How large a territory is available, how many units are required to fulfill mandated minimum density, and how much will you have to invest upfront? Chains used to set minimum density at two to three units for a territory; now that number may be seven to 10. They also may require a capital commitment for each unit upfront—a figure that varies from tens of thousands of dollars for takeout concepts



that don't require much floor space or equipment to \$1 million or more for established quick-service and casual-dining brands.

Whatever the brand, location is still a vital component in a successful franchising model. "One of the biggest caveats in area development centers on understanding the market. Get the location wrong by one block and you risk having a marginal unit instead of an optimal performer,"

Beam says. "Buy market research. But build on that with local knowledge. If you're expanding into a new territory, open one unit you know will be a home run. Then hire a local district manager who knows the traffic patterns and local consumer preferences to help you find and evaluate sites."

Looking beyond traditional solutions can also drive area development. Beam likes the fit of multibrand franchises with lifestyle centers. "When talking to the building owner, you may be able to make a more compelling argument for a tenant that offers the cross-market appeal of two or three well-known brands in a single outlet," says Beam.







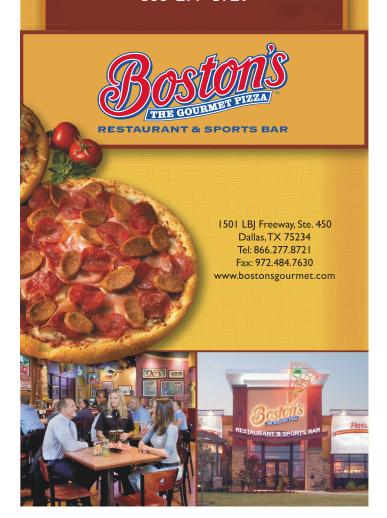


Governet

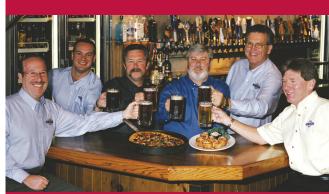
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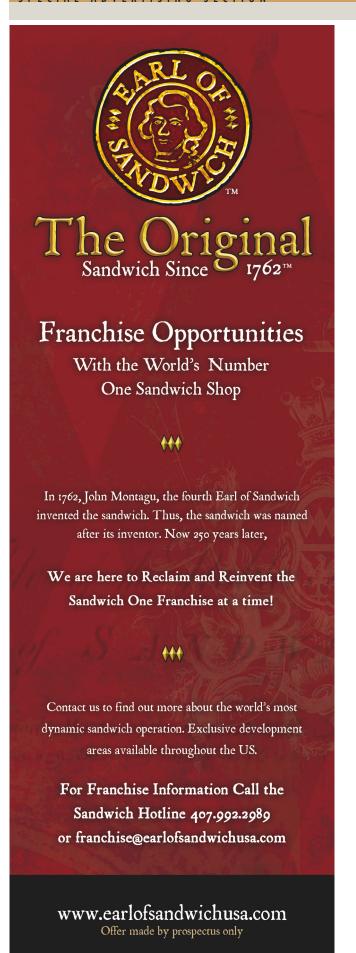
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*Figures reflect averages of all company-owned restaurants opened for at least one full year in 2004.

Substantiation of these figures can be found in our Uniform Franchise Offering Circular, We do no represent that any operator can expect to attain the operating margins presented in this advertisement, or any other particular level or range of operating margins. Your success will depend largely on your ability and efforts.

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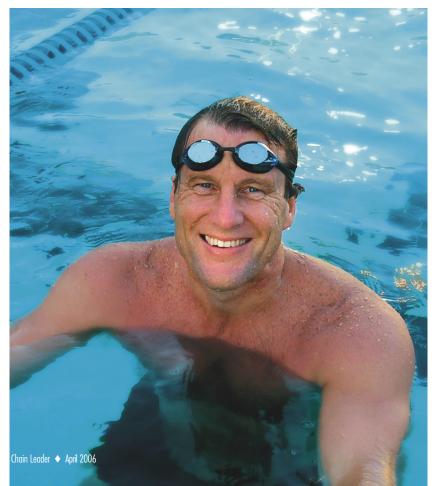
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BY CHARLES BERNSTEIN

oug Sullivan, president and CEO of Ormond Beach, Fla.-based Stonewood Holdings, which operates 17 Stonewood Grill & Taverns, loves nothing more than swimming in his spare time. "I've learned that when I'm swimming back and forth in a lane early in the morning, I am truly by myself and in my own world," he says. "Swimming totally assumes my thinking."

Swimming invigorates Stonewood Grill's Doug Sullivan in and out of the pool.

Water Therapy



Watershed Moments

The 47-year-old executive started swimming recreationally as a youngster. He took up the sport seriously, though not competitively, just a year ago when he joined a masters swimming class at the local YMCA. He learned the freestyle backstroke as well as the butterfly and breast strokes at the YMCA classes.

And as soon as he learned that swimming is more than "just flailing your arms and legs" in the water, Sullivan signed up a coach, Kristen Lochte, whose brother is Ryan Lochte, a 2004 Olympic gold medalist swimmer.

Sullivan swims three times a week from 6 a.m. to 7:15 a.m., and he tries to find a pool when he is on the road. During his 3,000- to 3,500-yard workouts, he is totally focused on counting his breaths and strokes, making sure that his toes are pointed correctly and that his legs are kicking efficiently.

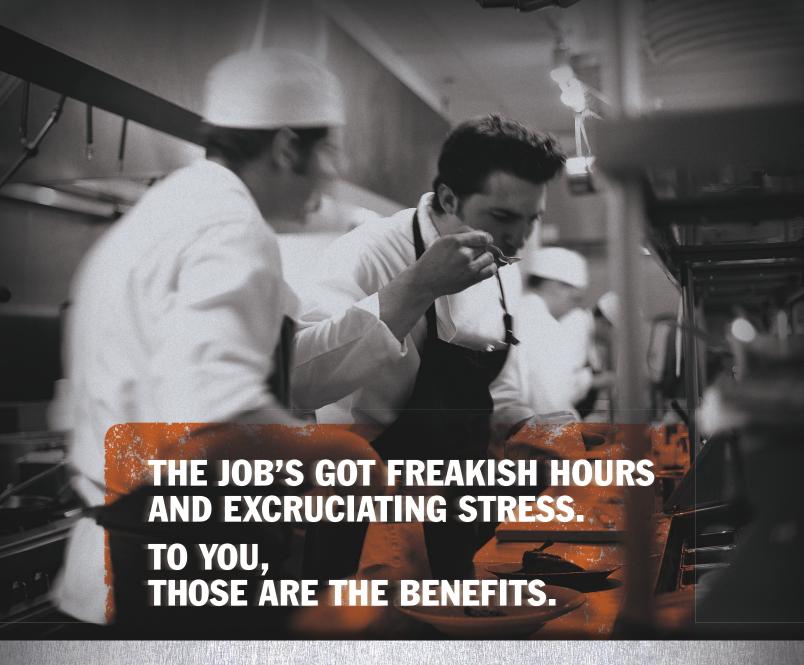
"Swimming is the only sport I have done that requires total concentration," he declares. "You can't think of anything else while doing it."

Sullivan's 12-year-old daughter often joins him in the pool, and his two other daughters swim with him occasionally.

Positive Energy

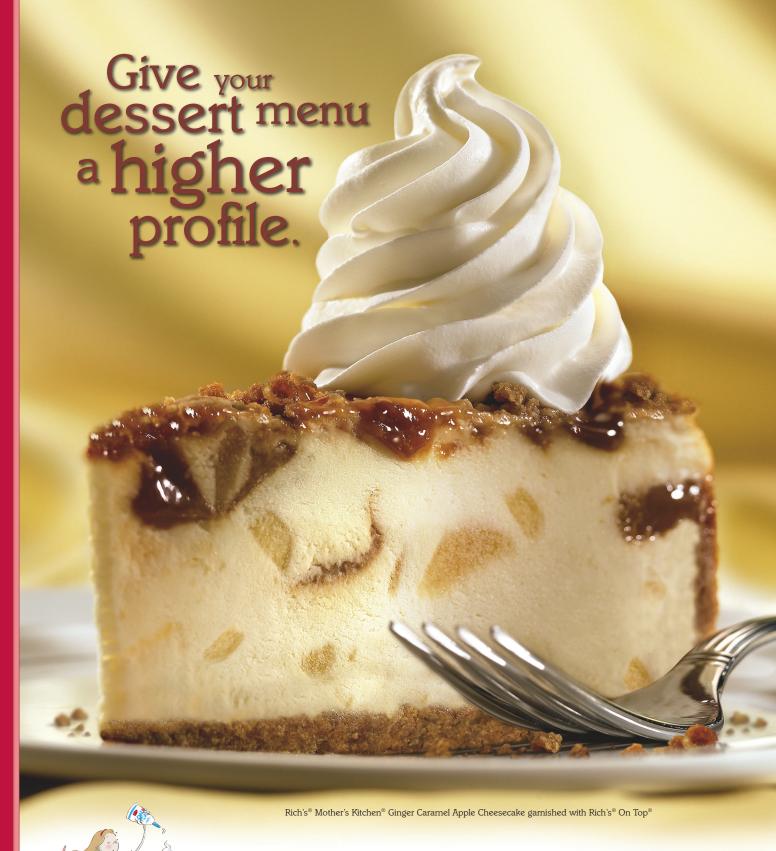
Since he began swimming last year, Sullivan has lost 25 pounds and sees the change in every part of his body. "My endurance and stamina have increased dramatically, not only in the pool but out of it as well," he asserts. "I don't feel exhausted at the end of a long workday, even on those days when I may be working in one of our restaurants until midnight."

Swimming also helps Sullivan relieve stress by focusing on the big picture. "In helping to focus on the things that are important in business and life, trivial matters tend to fall away," he says. "I wonder if swimming not only makes people healthier but also kinder."



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