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# Chain Leader®

April 2007

INSIGHT FOR RESTAURANT EXECUTIVES

www.chainleader.com

El Pollo Loco gets a marketing boost from "The Apprentice."

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Bravo Development's growth strategy puts people first.

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## Taking Off

Church's CEO Harsha Agadi cuts costs to make profits in the growing chain. PAGE 36

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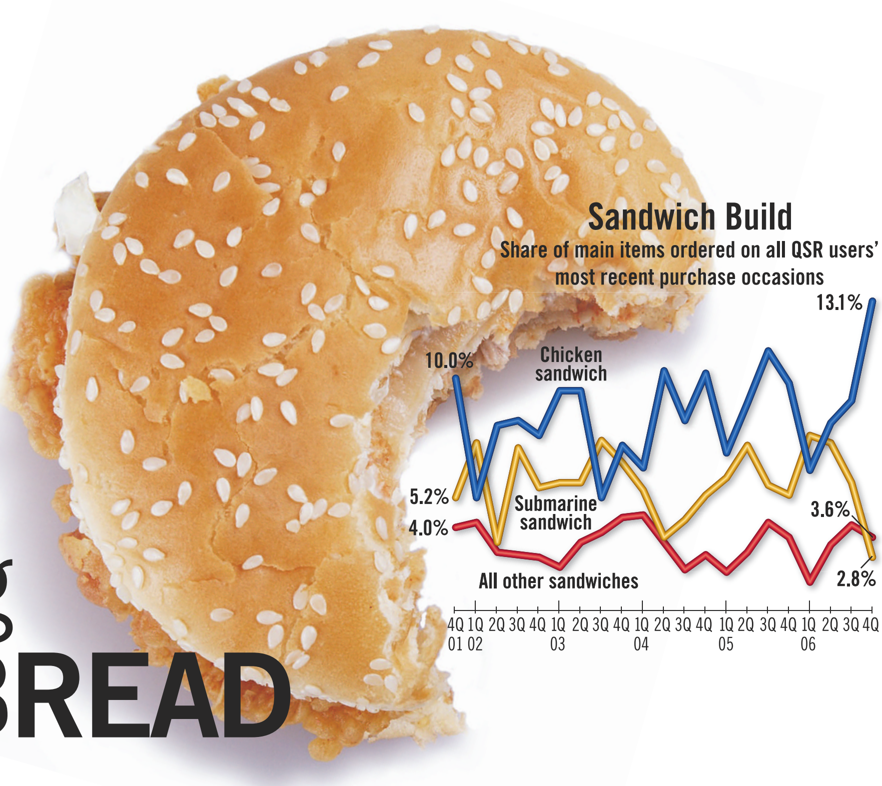
Fast-food customers continue to increase visits to sandwich chains.

# Making More BREAD

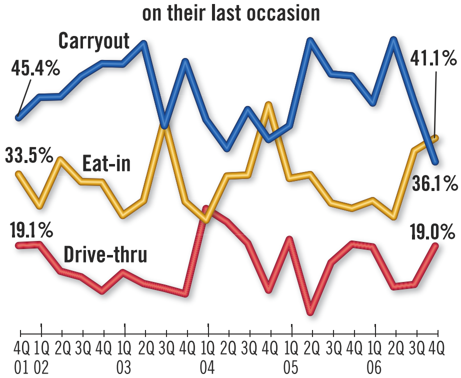
## Sandwich Build

Share of main items ordered on all QSR users' most recent purchase occasions



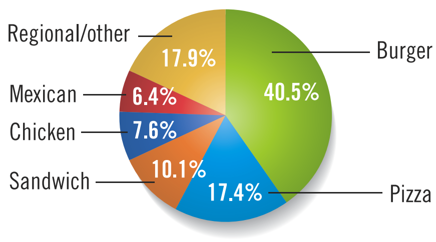

## It's in the Bag

All QSR users who ordered a sandwich on their last occasion

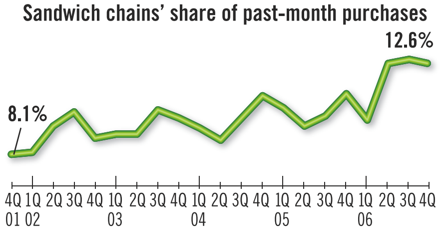



## Segment Share

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




Sandwich chains' share of past-month purchases




**By Mary Boltz Chapman**

National sandwich chains' share of QSR purchases continues to rise. According to the quarterly Quick-Track survey by San Clemente, Calif.-based research firm Sandelman & Associates, their share reached a high of 12.8 percent in third-quarter 2006. A 21-quarter average shows sandwich chains' share of past-month QSR purchases was 10.1 percent.

- Sandwich chains make up 13.7 percent of lunch occasions, 8.8 percent of dinner occasions and 5.8 percent of snack occasions.
- Of all fast-food users who ordered a sandwich on their most recent purchase occasion, 55.0 percent did so at lunch and 39.9 percent did so at dinner. Of all users' last occasions, 40.3 percent were at lunch and 49.5 percent were at dinner, according to a 21-quarter average.
- Sandwich chains comprise 19.2 percent of carryout occasions and 12.0 percent of eat-in occasions, but only 4.9 percent of drive-thru and 1.0 percent of delivery occasions.
- 50.2 percent of fast-food customers ordering a sandwich on their last visit used carryout; 31.0 percent of all users did.
- A 21-quarter average shows that 8.6 percent of all fast-food customers ordered a chicken sandwich on their most recent purchase occasion, 5.8 percent bought a submarine sandwich, and 3.3 percent had another type of sandwich.
- 32.3 percent of fast-food customers having a sandwich on their last occasion were alone, while 27.0 percent of all QSR users were.
- Those having a sandwich on their most recent visit were slightly less likely than all QSR users to take advantage of a special deal or promotion: 18.0 percent vs. 20.9 percent, according to 21-quarter averages.
- 17.2 percent of fast-food customers who had a sandwich on their last occasion also bought chips; 14.7 per cent had french fries. ■

**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 sandwich-chain users" as those who have purchased food at any of the tracked national sandwich chains at least once in the past month. Most-recent purchase data is based on all QSR users who ordered a sandwich on their last purchase occasion.



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# Chain Leader

INSIGHT FOR RESTAURANT EXECUTIVES

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### DEPARTMENTS



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### ON THE NET

**Web Exclusives**

- President Kim Lopdrup expands on the changes in store for Red Lobster
- Operators share perspectives about the lucrative real estate in North Raleigh, N.C.
- Dunkin’ Donuts has more snacks in the works to capture p.m. traffic
- Salsarita’s Fresh Cantina demonstrates how easy it is to set up a gift-card program.

**Cover Society Podcast**

- How Frank Guidara differentiates Uno Chicago Grill in a tough casual-dining market

**How to Grow to 100 Units**

- Web-exclusive content and related articles on growing concepts
- Video coverage of *Chain Leader’s* “How to Grow to 100 Units” roundtable
- California Tortilla’s Pam Felix on the trials and joys of growing her spunky concept

**Plus**

- Senior Editor David Farkas muses about the restaurant industry in his blog, Dave’s Dispatch
- Daily news
- Franchise opportunities
- Topic-specific pages on marketing, expansion, operations and more

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The same menu can offer healthful fare and high-fat food, if that's what customers want.

# Menu DICHOTOMY

**Mary Boltz Chapman,**
Editor-In-Chief

This week I attended a National Pork Board event where I cooked carnitas tacos with Chef Frank Scibelli, who owns Mama Ricotta's, an Italian restaurant, and Cantina 1511, a Mexican restaurant, in Charlotte, N.C. He enthusiastically explained to me how he cooked the pork butt for almost two hours in plenty of lard and savory ingredients. After we chopped some produce (including radishes!) for pico de gallo and pureed others for a smooth avocado-tomatillo sauce, he cooked tortillas with some of the cooking oil on a hot skillet and we assembled the tacos. Makes my mouth water just thinking about it.

After lunch, we asked the five chefs in attendance about the dishes they prepared and their menus back at work. Scibelli said his customers at both restaurants are looking for lighter, healthier items.

## Going Both Ways

Scibelli is not alone in wanting to give customers what they say they want, i.e. healthier food, at the same time he indulges their desire for decadence with dishes like that artery-clogging but tasty carnitas taco. Since the days of the hamburger patty served with a scoop of cottage cheese in a canned peach half, restaurant operators have been trying to offer "diet" fare, even if they don't sell a lot of it.

Today the buzz is about trans fats, of course, and not a week goes by that I don't get at least one press release from a chain that's made the big switch. Fast-food chains in Australia met in March to join forces in lowering trans fats on their menus. They were spurred on by the government, as were many of American chains' efforts.

On the other hand, you can pile on the patties at Burger King or swirl a tremendous portion of fettuccine Alfredo at Olive Garden. An entrepreneur in Tempe, Ariz., is selling 8,000 calorie hamburgers at his Heart Attack Grill, which touts a "taste worth dying for."

## To Tell the Truth

It's not the government's place to ban trans fats or foie gras. I wish our industry had more control over that, and that more representatives of our industry would lobby local, state and national politicians.

But you must be honest with customers and give them what they want, including information about what they're eating. Go to the menu page of Hardee's Web site. Right after the giant hamburger lands at the bottom of your screen, look to the right. There, you'll find a link to the chain's nutrition information.

Will the same customer who buys the Jalapeno Thickburger look up its calorie count (840) or its level of sodium (1690 mg)? Probably not. But the person ordering the Charbroiled Chicken Sandwich might.

Proudly serve large portions of meat dripping with its own juices and sugary desserts with enough calories for half a day. Or offer crisp, fresh vegetables tossed with vinaigrette. Or both. Just make sure your menu matches your brand, its mission and what your customers want. ■

I welcome your feedback. Contact me at (630) 288-8250 or mchapman@reedbusiness.com.

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# company & people index

Companies (bold type) and individuals in this issue are indexed to the first page of the story in which each is mentioned.

# **Hit** and MISS

A restaurant analyst gives industry perspective on a shareholder's dispute with Applebee's. **By David Farkas**

Consultant and former restaurant analyst Craig Weichmann

Shareholder Richard C. Breeden of Greenwich, Conn.-based Breeden Partners, which controls about 5 percent of Applebee's stock, recently complained in a public letter that Applebee's weak performance measures nonetheless led to generous executive bonuses. Shortly thereafter, the chain's board of directors announced they'd hired financial advisers to evaluate "strategic alternatives." We asked strategic consultant and former restaurant analyst Craig Weichmann to evaluate Breeden's case.

**What do you make of the letter?**

It's a well-written, thoughtful letter that challenges the company's methodology of paying fairly substantial bonuses to its executives without getting the full benefit for its shareholders. It should have been sent confidentially, but today the activist-shareholder state of mind is to rally public sentiment.

**It's a different environment from when you were working as an analyst.**

In those days, leading analysts went into private meetings with buy-side individuals to talk about concerns with management. You got new disclosures and direct answers to questions from the CEO. Today, no disclosures can be made privately.

**One might ask whether Breeden understands restaurants.**

True. His bias is that the stock market is the ultimate measure of the accomplishments of the company.

> "[Breeden's] bias is that the **stock market is the ultimate measure** of the company."

**The company, however, has no control over the market.**

I would point to the market correction [on Feb. 27]. Does it mean that management teams did something wrong? The P.E. ratio is a relative barometer that changes frequently.

**So what is Breeden missing?**

He's missing what drives a chain to perform. Breeden's letter heavily criticizes management benchmarks. For example, store managers typically receive bonuses based on same-store sales, mystery shops, cost controls and employee turnover, because those criteria are thought by many chains to be crucial to measuring performance. I bet senior-executive bonuses parallel the same formula. The thinking is: We measure our people on those standards. So we should be measured on the same criteria. That's a mark of good leadership.

**You can't ignore Breeden's charge that executives used the company plane for personal business.**

He is dead on in finding the abuse of allowing use of the corporate jet. He's correct to challenge it. But let's step back for a minute. Sure, Breeden has caught Applebee's with their pants down during one of the most difficult periods that Applebee's has faced. Yet many other casual-dining chains are in a difficult period, particularly those with $10 to $15 check averages. We are at a point of history where many chains are in a soul-searching mode.

**The letter nonetheless appears to have prompted the company to explore strategic alternatives. Do you think Applebee's will be sold?**

It's a distinct possibility. The company has a highly predictable royalty stream, and there are examples of financing off royalty streams: Quizno's, for example. Applebee's has a large pool of fee-simple company stores. Someone could tap into that real estate and use it as a means of financing. Third, Applebee's store margins are at low ebb, as noted by Breeden. Someone could figure that by taking corrective measures and boosting margins 100 basis points, the transaction will pay for itself. ■

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Retro but clean and contemporary, Patty Burger's design—like its limited menu—keeps things fresh and simple.

Concept creator Gregg Majewski emphasizes training in the flagship location's kitchen in Chicago.

# Retro **APPEAL**

With a wink and a smile, Patty Burger markets its limited menu of fresh burgers with a wholesome-but-playful pin-up girl.

**By Monica Rogers**

Patty Burger's first unit opened in Chicago in October 2006.

**SNAPSHOT**

**Concept** Patty Burger
**Headquarters** Chicago
**Units** 2
**Average Unit Volume** $510,000 (company estimate)
**Average Check** $8
**Expansion Plans** At least 3 or 4 in 2007, 100 by 2012

Betting burger eaters would rather look at a '40s-style pin-up girl than competitors' clowns, kings or castles, Chicago-based Patty Burger is building brand image on an airbrushed ideal named Patty. Fresh-faced, auburn-haired and just a bit audacious, Patty leans on logos and is blown up big on posters throughout the concept's two units. She's been carefully crafted to match the fresh-made, hand-formed, just-a-little-spicy burgers that concept creator Gregg Majewski hopes will prove equally iconic.

Former CEO for Jimmy John's, Majewski says, "Fresh-not-frozen, 100 percent Angus-beef burgers are an untapped niche in the quick-serve market." Majewski credits Jimmy John's founder Jimmy John Liautaud with teaching him about the industry—especially the importance of quality and simplicity. "But I always wanted to create my own concepts," Majewski says.

### Basics, with Style

Served with leaf lettuce, tomato, onion and a signature spicy sauce, the seasoned burgers come on house-baked buns as singles ($3.29), doubles ($5.29) or triples ($6.49). Cheese, grilled onions, mushrooms, bacon and avocado are 29 cents to 99 cents extra. Sides are limited to fries ($1.39 regular), chili ($2.59), soft drinks ($1.49 regular) and shakes ($3.89). Marketing the stripped-down menu with a "modernized pin-up icon that beckons back to a time when traditional meant quality" completes the package, says Majewski.

Well, almost. Unexpected extras include made-from-scratch breakfast sandwiches. "It just made sense to offer breakfast as a way to collect potential revenue" because a manager is on site early mornings anyway, Majewski says.

The startlingly fresh design by Chicago-based Simeone Deary Design Group is also unexpected. The look is retro but has a clean, almost Asian aesthetic. Principal Lisa Simeone and co-principal Gina Deary, who has done extensive work in Asia, studied fast-food concepts there to synthesize design ideas for Patty Burger. Units include cement floors, stainless steel and polka-dotted walls. Mod orange light fixtures and ceiling and accent-wall expanses in creamy orange warm the space. Fees and buildout costs are $250,000 to $300,000.

### Patties Perfectly

Since opening a unit in Chicago in October 2006 and another in Milwaukee in February, Majewski plans to add three or four more units (some franchises, some joint ventures) in Chicago this year and hopes to have 100 across the Midwest by 2012.

Biggest challenges center on training. "It takes a lot to get cooks trained on how to cook fresh to order, quickly, perfectly, every time," says Majewski. "Each visit is the one that counts. You can get it right and get it right again, and then you screw up once and the guest won't come back. It's that simple."

Patty also hopes guests will be back. Sending guests home with a wink and a smile? Each burger wrapper is sealed with Patty's lipstick sticker "kiss." ■

*Photography by Tony Soluri*

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Cuba Libre's dining room was designed to recall the loudly painted courtyards of pre-Castro Havana.

Officials say they've sold 175,000 mojitos since opening in 2000.

Cuba Libre opened in 2004 at Atlantic City's Tropicana Casino, itself modeled after an Old Havana resort.

# What Might Have BEEN

High-volume Cuba Libre imagines Cuban cuisine if there were no Castro.

**By David Farkas**

Barry Gutin's ostensible purpose in traveling to Cuba six years ago was humanitarian. He wanted to learn more about how the relatively few Jews on the Caribbean island practiced Passover Seder under an unfriendly communist regime. "What they cooked for the meal and how it had been influenced," he recalls.

Yet Gutin's curiosity about Cuban food extended beyond the ritual meal. The CEO of Philadelphia-based Libre Management also wondered about the extent to which traditional dishes had been affected.

"Cuban cuisine has died on the vine because of the [U.S.] embargo and the Cuban government," he says. "Castro took chefs out of the kitchen and made them soldiers."

## Cuban Evolution

Today Gutin promotes a popular brand of Cuban-style cooking at Cuba Libre, a high-volume restaurant-bar concept with units in historic Old City in Philadelphia and in the Tropicana Hotel in Atlantic City, N.J. Besides being the first Cuban eatery in the City of Brotherly Love, it's also the first to offer European-style bottle service, he boasts.

"We're envisioning how Cuban food would have been presented had Castro not come to power, if it had continued to evolve," Gutin says. Dinner at Cuba Libre, for instance, might include something as traditional as black bean soup with sweet corn *arepas* (griddle cakes made with cornmeal). Or it might involve something sexier—sugar cane-skewered ahi tuna marinated with guava, soy sauce and rum.

"The important thing is that Cuban flavors are not strange to the American palate," Gutin explains.

The mojito is certainly no stranger to Americans. Cuba Libre makes the $8 drink with fresh cane juice and a variety of fresh fruits. Juice is extracted in the kitchen using a *guarapo*, a small machine equipped with rollers through which sugar cane is passed. Gutin, who says he's sold more than 175,000 mojitos, thought of displaying the extraction process at the bar, but its messiness convinced him otherwise.

The concept features a Colonial-style courtyard that has apparently caught on. "It's very theatrical, almost like a stage set," says Marilynn Marter, a *Philadelphia Inquirer* food writer who has dined at the restaurant and written about its executive chef, Guillermo Pernot. The two units—the first opened in 2000, the second in 2004—make $7.5 million in sales apiece, Gutin claims.

## Getting Cheaper

The first Cuba Libre cost $4 million, largely due to individually sourcing building materials and buying antiques. For the Atlantic City site, Gutin trimmed costs by using artisans who made new material look old. "We also need to understand the optimum lead time so as not to impact costs," he adds.

Gutin expects to open two more Cuba Libres in 2008. Possible sites include Reno, Nev., and New Jersey's Meadowlands arena. This year, he and his partner, Larry Cohen, are designing a prototype and arranging for a private placement intended to fund growth for the next five years.

"We're looking at gaming locations, metro-urban sites and unique shopping centers that have entertainment and restaurant venues," Gutin says. No mention of Havana in the near future. ■

**SNAPSHOT**

**Concept** Cuba Libre
**Company** Libre Management, Philadelphia
**Units** 2
**2007 Systemwide Sales** $15 million (company estimate)
**Average Unit Volume** $7.5 million
**Average Check** $20 lunch, $45 dinner
**Expansion Plans** 2 to 4 in 2008

Photo (c.) by Nick Valinote

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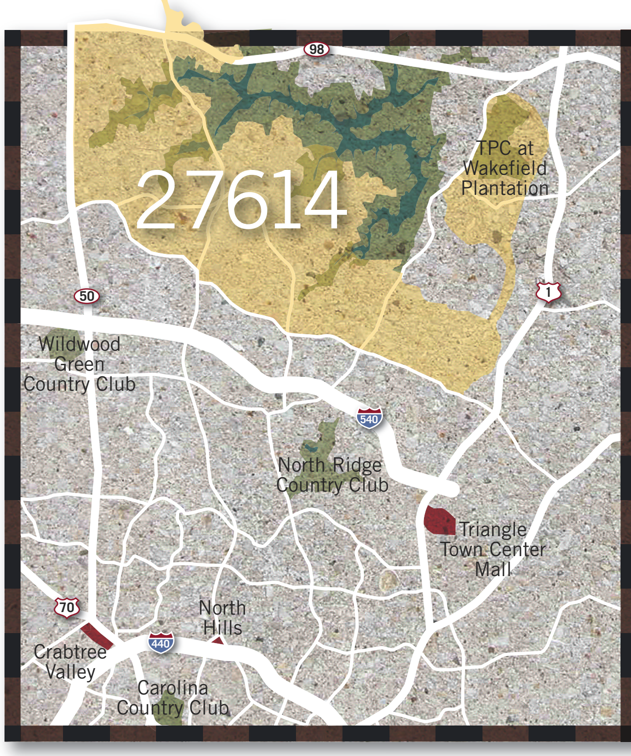
# From Good to GREAT

Affluent areas lay nestled in North Carolina's booming capital.

**By Lisa Bertagnoli**




This is the year for Raleigh, a city of 341,000 situated in North Carolina's upper northeast quadrant. In February, *Forbes* magazine named Raleigh, North Carolina's capital, the No. 1 job market in the country, an honor due mostly to Research Triangle Park, the world's largest high-tech research center. *Money* magazine placed Raleigh fourth on its list of the best big cities in which to live. A reasonable cost of living, clement weather and access to good education landed the city on that list.

Raleigh, like most big cities, has its neighborhoods, and of them, North Raleigh is one of the most desirable. North Raleigh, just north of Interstate 440, the "beltline" that runs around the city, includes ZIP code 27614. That ZIP code is the state's second wealthiest area, after Myers Park in Charlotte.

Household incomes in 27614 average $145,000 and disposable income, almost $100,000, according to ESRI, a Redlands, Calif.-based demographics research firm. The average home value is $378,475. By contrast, the median home price for all of Raleigh in 2005 was $177,200 and household income was $46,612.

### Restaurant Ready

All this makes North Raleigh prime expansion ground for restaurants. "From a merchant category, that's where the interest is," says Steve Brown, vice president and director of leasing for Kane Realty Corp., a Raleigh-based commercial real-estate and development firm. Kane's properties include North Hills, a 1.3-million-square-foot mixed-used development in North Raleigh.

Rents per square foot for restaurants average in the mid to upper $20s, but can extend into the $30 range, Brown says. And the market is competitive: "The good spaces go fast," he says. ■

### FROM THE STREET

**AREA:** ZIP code 27614, North Raleigh, N.C.
**POPULATION:** 11,045
**AVERAGE HOUSEHOLD INCOME:** $145,150
**AVERAGE HOME VALUE:** $378,475
**COMMERCIAL REAL-ESTATE RENTS:** Mid to upper $20s (net) per square foot
**NOTABLE DEVELOPMENTS NEARBY:** North Hills, Crabtree Valley Mall, Triangle Town Center
**OPERATOR PERSPECTIVE:** Finding space will be a challenge for Wing Zone, the Atlanta-based, 90-unit chain that offers wings for dine in, takeout and delivery. The chain has restaurants in Chapel Hill and is looking to expand into North Raleigh. "In areas with high discretional income, delivery business is massive," says Matt Friedman, Wing Zone's founder.

However, he expects real estate to be a challenge. "For our size space, which is typically 1,200 to 1,500 square feet, it's competitive out there, but we're used to it," Friedman says.

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# TRUMP Card

El Pollo Loco leverages an appearance on "The Apprentice" to boost brand awareness.

By Margaret Littman

Rosie O'Donnell may not be noticing residual goodwill as a result of her recent interactions with Donald Trump. But for consumer brands, associating with The Donald can be a good thing.

That's the experience of El Pollo Loco, anyway. The Irvine, Calif.-based chain is the latest restaurant to participate in "The Apprentice," Trump's reality TV program on NBC. On the show, aspiring executives are given business challenges, and Trump judges their results. Other restaurant chains including Dairy Queen, Burger King and Arby's have appeared on the show.

"Restaurants are a perfect fit for the show," explains Jay Bienstock, an Apprentice executive producer. "You do not need to explain how a restaurant works. And it is fun. You do not have to get mired down in boring cash flow."

When the show moved to Los Angeles from New York for its sixth season, the producers sought a restaurant chain that was representative of the California gestalt.

## Quintessentially California

"We're an iconic Southern California brand. They wanted to do something around automobiles, and we're a QSR with a drive-thru," says Karen Eadon, El Pollo Loco's chief marketing officer.

That desire dovetailed with El Pollo Loco's goal to expand its brand identity beyond its core market. The 360-unit chain plans to add 30 units in 2007 and 49 in 2008, mostly through franchising in new markets like Rhode Island. The appearance on "The Apprentice" provided an incomparable boost of brand awareness to both potential new customers and prospective franchisees. And the chain's demographic target of 25- to 49-year-olds meshed well with the program's audience.

"For people to see and understand that you can serve flame-broiled chicken through a drive-thru is invaluable to us," says CEO Steve Carley. "It was a 10-minute, uninterrupted look at the attention to how we serve our food."

El Pollo Loco can't say what it paid for the "product integration," but Eadon says it was "significantly less" than what national chains paid for the opportunity. "The benefit far exceeded the value of a 30-second commercial," she says. The chain's ad budget for 2007 is an estimated $10 million to $15 million.

## "The Apprentice"

*Length: 1 hour*

**1.** The Donald, CEO Steve Carley and Chief Marketing Officer Karen Eadon meet the teams.

**3.** The teams had two hours to come up with their best bets for a new Pollo Bowl.

**5.**

**7.** Trump says, "You're fired," to one competitor, but El Pollo Loco comes away the winner.

## Power of the Small Screen

Both Carley and Eadon appeared on the Jan. 28 episode of "The Apprentice: Los Angeles." They instructed contestants to develop, market and sell a new version of its Original Pollo Bowl. The TV teams wore El Pollo Loco T-shirts and worked behind the counters and the drive-thrus.

In the week after the broadcast, the chain saw a 6 percent increase in Pollo Bowl sales, a 43 percent rise in catering orders (a category highlighted by some contestants) over the previous week and a 30 percent increase in inquiries from prospective franchisees. Simultaneously, El Pollo Loco launched a two-week Create Your Own Pollo Bowl contest online, allowing customers to outplay the contestants and enter to win a trip to the show's finale.

The online promotion netted 42,000 hits on the El Pollo Loco's Web site, about two-and-a-half times the number it normally receives, says Mark Hardison, director of marketing. More than 10,000 people entered the contest, and at press time the chain had a 28 percent redemption rate for the coupon contestants received. It also collected e-mail addresses for its first significant e-mail marketing campaign.

Carley was surprised by how much interest the TV appearance and online promotion generated among bloggers and through other Internet sites. Because the El Pollo Loco episode ran the week before the Super Bowl, the chain essentially got "an extra week of buzz" before the next episode aired, he says.

## Integrated Marketing

Bienstock predicts that this kind of product integration will increase, because there is an inherent purpose built into the marketing, as opposed to product placement, where a TV character conveniently drives to a specific QSR during a scene about something else.

Because reality TV is considered a game show, the Federal Communications Commission regulates certain aspects of its content. "We cannot tell a contestant to do something," Bienstock explains. As a result, "The Apprentice" can't guarantee any particular outcome for a brand. But neither Bienstock nor El Pollo Loco felt that was a risky proposition. When contestants in the third season created poor caliber ads for a Dove skin-care product, requests for free samples still "went through the roof," Bienstock says. The audience was able to distinguish between the contest and the product's core qualities.

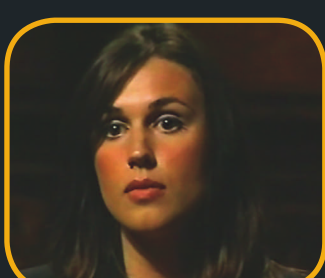
"This worked because the messaging about the brand was consistent. That message is: 'We are the leader in flame-grilled chicken,'" Eadon says. The TV appearances helped drive that home, while the company can focus the message with in-store materials on healthy dining or even how to pronounce the concept's name—crucial in new markets with small Hispanic populations.

Carley feels the message hit home because the product integration allowed others to talk highly of the concept, instead of the chain touting itself. "It is a major endorsement of the brand," he says. ■

**2.** Their task: Build a better Pollo Bowl.

**4.** Then they had to sell them in-store at two different units.

**6.** The teams wore their El Pollo Loco uniforms in the boardroom, extending the brand exposure.



**8.**

**SNAPSHOT**

**Concept** El Pollo Loco

**Headquarters** Irvine, Calif.

**Units** 152 company, 208 franchised

**2005 Systemwide Sales** $478 million

**2006 Systemwide Sales** $511 milllion*

**Average Unit Volume** $1.6 million

**Average Check** $8.90

**Ad Budget** $10 to $15 million (company estimate for 2007)

**Expansion Plans** 30 in 2007, 49 in 2008

**Chain Leader* estimate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**MAX & ERMA'S** ditches dark colors and heavy decor to create a female-friendly interior.

# A LIGHT Touch

**By Lisa Bertagnoli**

In 1972, Max & Erma's began life as a fern bar, complete with dark woods and a visual overload of decorative items hanging on the walls and from the ceiling.

More than three decades later, that look has changed, if not radically, then substantially. Dark woods are mostly gone, replaced with a lighter finish. The walls are "raspberry truffle" red, and panes of colored glass brighten interior dividers as well as exterior windows. Much of the "stuff" is gone, too. What remains is a carefully edited selection of vintage-looking photos and larger objects such as a kids' car, an Indian motorcycle and a neon sign.

Slate covers most of the floor, which was formerly stained concrete and carpet. The interior is brighter, with more than a half-dozen varieties of pendants, lamps and lighting fixtures illuminating tabletops and booths. Once a focal point, the bar now is off to the side, its lounge area outfitted with oversize chairs and cocktail tables.

Overall, the new look is "lighter and brighter, with more vibrant colors and fixtures," says Rob Lindeman, president of Columbus, Ohio-based Max & Erma's. "It projects an image of quality and uniqueness, and it grabs your eye."

## Point of Difference

The idea for a redesign dates to 2004, when Max & Erma's executives took a hard look at the casual-dining chain's competitive niche. "We found ourselves lumped in with Friday's, Red Robin, Ruby Tuesday and other competitors," Lindeman says. "We didn't put ourselves there, but the majority of customers did."

**SNAPSHOT**

**Concept** Max & Erma's
**Location** Springboro, Ohio
**Designer** WD Partners, Columbus, Ohio
**Opening Day** Oct. 23, 2006
**Area** 5,985 square feet
**Seats** 192
**Average Check** $13.60
**Unit Volume** $2.76 million
**Expansion Plans** 10 in fiscal 2007


1. Vintage photos of founders Max and Erma Visocnik remain as a nod to the concept's heritage.

2. Let there be lights: The designers specified more than a half-dozen light-fixture styles including fabric shades, opaque glass pendants and colored Venetian glass fixtures.

3. Comfortable chairs and a fireplace give the cocktail area a female-friendly wine-bar look.

It wasn't a spot in which Lindeman was entirely comfortable. "We realized we weren't as different as we used to be," he says.

Lindeman hired WD Partners, a Columbus, Ohio-based design firm, to work with the chain on a prototype. Focus groups with heavy Max & Erma's users revealed two facts: First, that women made most of the decisions on whether to visit Max & Erma's, and second, that customers loved the concept but thought it outdated.

"We wanted to get away from all that theming going on," says Lee Peterson, vice president of WD brand and creative services.

For WD Partners, the results of the focus groups meant several design mandates, including brand updates as well as operational improvements. For instance, the new buildings are roughly the same size as the older buildings, but the kitchen occupies 46 percent of the space, compared to 54 percent in the former building. The smaller kitchen is more efficient and allows for faster service.

One of the biggest interior design changes made to appeal to women was the addition of lighting, not necessarily to add more light, but to add visual interest. "Customers love different kinds of lights," Peterson says. The new design includes eight different types of light fixtures. Swirled Venetian-glass pendants hang above the bar. Quirky opaque fixtures that resemble folded napkins are suspended above booths, and oversize living-room-style fabric shades hang from the ceiling.

*Photography by Kingmond Young*

Colored glass windows give Max & Erma's an eye-catching exterior.

### A Nod to the Past

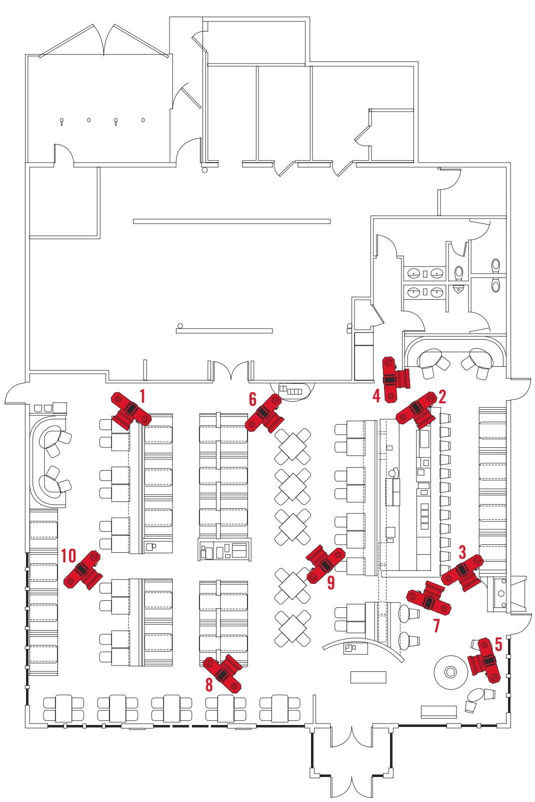
Max & Erma's didn't totally discard its heritage. Signature touches remain such as a sundae bar set in a vintage, claw-foot bathtub. Some details are toned down. Black-and-white photos of founders Max and Erma Visocnik still decorate the walls, but so do photos of younger people. Photos "are more about Erma or Erma's daughter, than Max and Erma," Peterson says.

Another holdover: the human-looking plastic legs that form the base of two cocktail tables in the lounge area. In older stores, the legs belong to several bar stools. Two Tiffany-style lamp fixtures, local memorabilia such as signs and photos, and neon signs and small motorcycles suspended from the ceiling are relics from the older design as well.

**4. The interior is brighter, with more lighting fixtures illuminating tabletops.**

**5. Light, bright colors, fixtures and finishes make the interior more inviting for women.**

**6. Decoupage tabletops fulfill focus groups' wishes to "find the unexpected."**

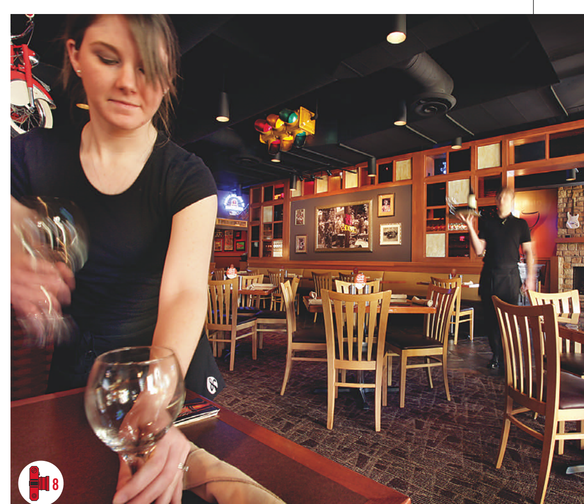



**KEY**
**Direction of shot**
**Shot No.**
**Position of camera**

**This floor plan is designed to show the location of each key photograph. Shot numbers correspond with numbers in select photos.**


**7. Branding elements include a mural in the bar area festooned with phrases such as "wine is bottled poetry."**

**8. Slate replaces the concrete and carpet flooring of Max & Erma's older design.**


## Spending Habits

The new building costs about $1.9 million to build, in line with the cost of the older stores, Lindeman says. However, the money is spent differently: "If we have $100 to spend, we spend $80 of it where we get a ton of credit, and the other $20 where we have to spend it to deliver product," he says.

Remodels, which will include decorative items but no structural changes (for instance, no fireplace), will cost about $275,000. Max & Erma's plans to have most of the system remodeled within the next five years.

So far, 10 of the chain's 100 units (a mix of new restaurants and remod-

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**SALAD**
Santa Fe Salad, marinated chicken, shredded Monterey Jack and cheddar cheeses, tomatoes, tortilla strips and ranch dressing, **$8.66 whole, $6.99 half**

**DESSERT**
Banana Cream Pie: fresh bananas and vanilla pudding in a vanilla-wafer crust, topped with whipped cream and chocolate sauce, **$5.29**



## Focus groups with frequent Max & Erma's diners helped point the chain in the right design direction.

eled locations) sport the new look. Remodeled locations are posting average unit volumes 10 percent higher than untouched stores; new stores see volumes about 20 percent higher.

Traffic is brisk as well. The typical Max & Erma's has 175,000 guests a year; the prototype in Springboro, Ohio, which opened in October, is on track to serve 205,000 customers its first full year of business. Customers spend more, too, with checks averaging $13.60, compared to $13.25 at older restaurants.

The prototype, however, needs some refinements. For instance, future stores will have more seats. The new prototype has about 200 seats, 10 fewer than older stores. Going forward, Max & Erma's will add eight seats to the dining room "without compromising objectives," Lindeman says.

New locations also will have more interior brick. "It adds an element of warmth and is another piece of that heritage," Lindeman says. And for an "irreverent, fun" look, the bathtub sundae bar area will be redesigned to resemble a real retro bathroom, complete with a shower head, towels, shower curtain and black-and-white hexagonal tile.

It's all part of balancing what Max & Erma's was with what it wants to be: "A unique experience that's not a me-too place," Lindeman says. ■

**Ten of Max & Erma's 100 units sport the new look.**

**9. The bathtub sundae, a Max & Erma's signature, will be redesigned with black-and-white towels and a faux shower head.**

**10. An arch inlaid with vintage-looking tin tiles adds visual interest.**

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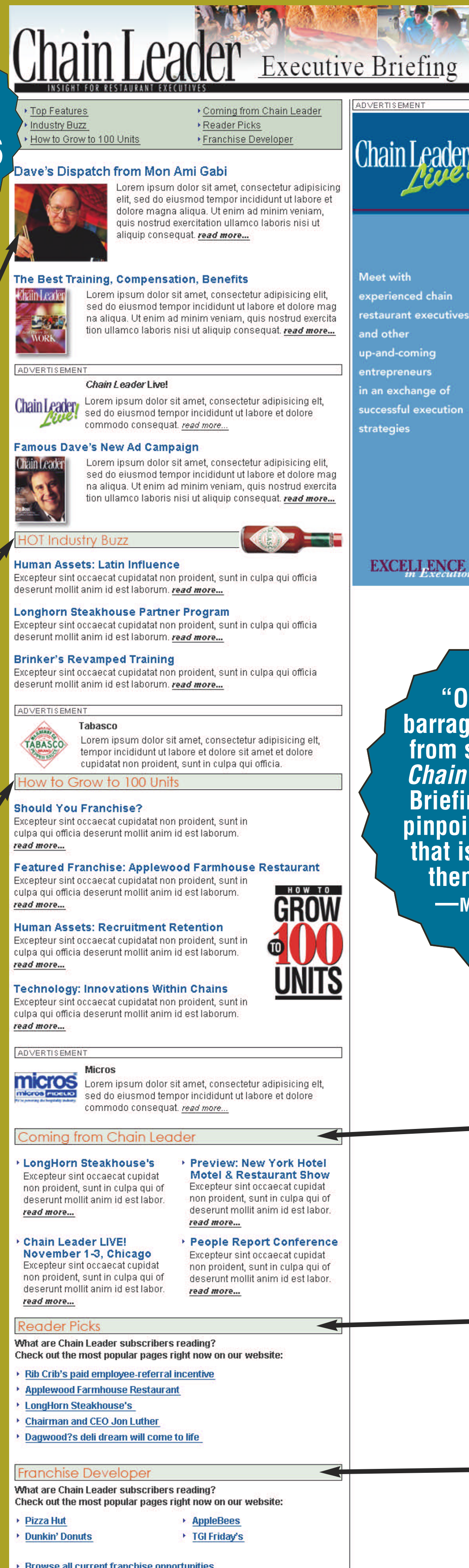
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# Snack TIME

Crispy flatbread sandwiches lead the pack of savory baked snacks that Dunkin' Donuts is testing to boost p.m. traffic.

**By Monica Rogers**


Dunkin' Donuts' new flatbread sandwiches use a bread product that is thinner and less spongey than pita but thicker than lavosh.

The big "S" words flying around Dunkin' Donuts' menu-development department right now are "savory" and "snacks." The Canton, Mass.-based chain started testing savory snacks in late 2005 in tandem with new prototypes to tempt p.m. noshers not interested in breakfast sandwiches or sweets.

"Dunkin' Donuts has had a fair amount of traffic in the afternoons with beverage sales and sweets, but we felt that we needed some fast, fresh and affordable savory items to generate more traffic," says Joe Scafido, chief creative and innovation officer for parent Dunkin' Brands.

Listed on test menus in the new category Anytime Snacks, new savory items include pizzas, chicken biscuits for Southern markets, and three flatbread sandwiches: Three Cheese (Jack, cheddar, American); Turkey, Bacon & Cheddar; and Ham & Swiss.

Flatbread sandwiches are the frontrunners in the savory snack test pack. "People understand these ingredients," says Scafido, who has "a high degree of confidence that these will be part of Dunkin's future." He estimates it will be a year to a year-and-a-half before the sandwiches are available nationally.

### Crisp but Tender

Oozing melted cheese, the simple toasted sandwiches are built on a new bread product Dunkin' Donuts developed last year. Thinner and less spongey than pita but thicker than lavosh, the bread is tender and yielding yet with a crisped exterior made possible by fast-cook ovens. Dough is shaped into loaves and parbaked before being layered with toppings, frozen and shipped to units.

"We were on the bench in R&D three to four months to make sure that the flatbread could be finished properly in the ovens, quickly," says Scafido. Getting the internal temperature on the meats and cheeses hot, but not too hot, was also tricky.

Aiding the process, Dunkin' Donuts expanded its menu development team more than a year ago. Of the 25 developers now on staff, five work full time on shaping savory snacks. "We wanted to stay with items that matched Dunkin's DNA, and baking is Dunkin's DNA," Scafido explains. As a result, the three savory snack items currently in test are built with some sort of dough: biscuit, flaky pizza crust and flatbreads.

One challenge to rolling these systemwide: The combination microwave and convection ovens are key to getting the right texture in finished results at the unit level, and franchisees not already using them will need to purchase them.

For franchisees such as Joe Rando, however, the new oven requirement wasn't an issue. Rando, owner of Heath Island Enterprises, operates two new Tennessee units selling the sandwiches and will open a third shortly.

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The combination microwave and convection ovens are key to getting the right texture in the flatbread sandwiches.

“I chose to go with the new menu and the new oven from the start for consistency,” he says.

**SNAPSHOT**

**Concept** Dunkin’ Donuts
**Parent Company** Dunkin’ Brands, Canton, Mass.
**Units** 5,368
**2006 Systemwide Sales** $4.7 billion
**Average Check** $4.50*
**Expansion Plans** 10,000 more by 2025

**Chain Leader* estimate

### Lunch and Late Night

Rando says reaction to the snack category has been very strong from both guests and visiting franchisees. Dunkin’ Donuts’ fans are “fanatical and ritualistic,” Rando explains. “We had crowds eagerly waiting for my first store to open. And when it did, they were not just thrilled to see what they knew Dunkin’ to be from the past, but very excited about the new options.”

Of the three flatbread sandwiches, Rando says Turkey, Bacon & Cheddar is selling a bit better than the other two, “But it’s an almost even mix between the three of them; very close.” Although he can’t give specific sales percentages, Rando says the sandwiches sell best during lunch and late night.

Franchisees around the country are looking at the new options for potential inclusion at their units. “I get a couple of calls and some visits every week,” says Rando. “They’re not skeptical about this but are optimistic and intrigued…looking to validate how this will work.” He hasn’t had any operational wrinkles, but he has had to make a mental shift to get used to the snack sandwiches taking 50 seconds to cook—20 seconds longer than the breakfast sandwiches. “Guests haven’t complained because the quality is better,” Rando says. “It’s more just me watching the seconds ticking on the clock.”

Dunkin’ will continue to test and tweak savory snacks. It is expanding the flatbread sandwich test to include varieties such as Italian, pepperoni and cheese, roasted vegetable, and a breakfast option. ■

**on the web:** For more information about Dunkin’ Donuts’ new snack line, visit www.chainleader.com.

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# The People PRINCIPLE

Bravo Development's expansion plans put human capital first.

**By Mary Boltz Chapman**

While the number of Bravo and Brio restaurants that Bravo Development Inc. plans to open is fluid, its growth strategy is not, says Saed Mohseni, CEO of the Columbus, Ohio-based company since February. He says Bravo's expansion will continue to emphasize human capital above all else.

"We don't really have a number in mind," says Mohseni, who has sat on the board at Bravo since its acquisition by New York-based private-equity firms Bruckmann Rosser Sherrill & Co. and Castle Harlan Inc. last summer. "Our goal is to grow the concepts in the same manner they have been built so far. First, to make sure we have the human capital we need to operate the restaurants. No. 2, we're fortunate the company has been recapitalized, has the financing to build restaurants. And No. 3, we're very selective in terms of what sites we will go to."

Pressed for specifics, he says he expects to open between five and 10 units for each of the next three to five years.

### First Things First

Bravo Development operates four concepts: Bravo, a casual Italian neighborhood concept with 34 units and an average check of about $18; Brio, a more upscale Tuscan concept emphasizing lighter fare and wood-grilled steaks and chops, with 20 units and a $23 check; plus two Bon Vie French bistros and a white-tablecloth Lindey's. Bravo and Brio are the growth vehicles.

The company will add new units in those markets where it already has a strong team of regional managers and partners. Mohseni points to the Midwest, Northeast and Florida. "At some point we will grow toward the West Coast," says Mohseni, former CEO of McCormick & Schmick's. "At this point we'll focus on these areas."

Vice President of Training and Development Jeff Ramm is not surprised to hear Mohseni putting human capital first. "It's very clear, his passion for the people part of the equation," says Ramm, who has worked

**SNAPSHOT**

**Company**
Bravo Development Inc.

**Headquarters**
Columbus, Ohio

**Units** 34 Bravo, 20 Brio, 2 Bon Vie, 1 Lindey's

**2006 Systemwide Sales**
$241 million

**Average Unit Volume**
Bravo $3.8 million*; Brio $6 million*

**Average Check** Bravo $18.34; Brio $23.31

**Expansion Plans**
5 to 10 a year for the next 3 to 5 years

**Chain Leader* estimate*


with BDI for 12 years, starting as general manager of the third Bravo store.

## Promoting from Within

The company began its Rising Star program about four years ago. Meant to train employees for management positions, Rising Star begins with identifying promising hourlies. The employees learn several different positions in the restaurant, then work a few new store openings to perform outside their comfort zones. Each quarter up to 20 hourlies will participate in more advanced training in Columbus.

Key to identifying and developing the hourlies is an assessment tool that Plano, Texas-based human-development firm Batrus Hollweg International developed. Batrus Hollweg examined the competencies that Bravo's successful managers exhibit and set norms based on them. Future managers are measured against and trained to achieve those norms. The competencies vary from level to level and include a range of skills from math to enthusiasm.

Ramm says that BDI's goal is to have 50 percent of unit-level managers come from the hourly ranks. Currently, about 35 percent of managers were former hourlies. He adds that approximately 90 percent of regional managers were promoted from within the company.

He's pleased with how the Rising Star program has helped retention as well. Prior to using the Batrus Hollweg tools, manager turnover was 35 percent. Two-and-a-half years later, that figure is close to 20 percent.

## Looking Ahead

Bravo Development's emphasis on human capital will serve the brands as they expand. Mohseni has spent the first several weeks in his new role visiting restaurants and checking out possible sites with Chairman Rick Doody, who co-founded the company in 1992 with his brother, Chris. Mohseni says Brio works best in lifestyle centers with other upscale retailers, while Bravo is more flexible, fitting in malls, inline locations and freestanding pads.

The two Italian concepts share services like accounting and construction, but each has its own brand president, marketing team and operations staff. "We operate them as two companies, but build them as one company," Mohseni says.

Though Mohseni won't get specific about the number of units opening this year, emphasizing again and again, "One location at a time, one guest at a time, one experience at a time," he's confident that within 10 years Bravo and Brio will be operating 150 units. ■

**With an average check about $18, Bravo has an upscale-casual Italian menu of pastas, salads and entrees, and can work in different locations like malls and inline spaces.**

**Brio attracts a more upscale customer to its locations in high-end neighborhoods and lifestyle centers. Its menu of Tuscan fare heavy on the grilled meats garners an average check of about $23.**

**CHURCH'S** is making a tidy profit opening restaurants here and abroad. **By David Farkas**

# Taking OFF

World conquest: CEO Harsha Agadi has launched an aggressive expansion effort that will put Church's Chicken in more than 20 countries by year's end.

(Opposite) The company and franchisees have opened 55 so-called tower prototypes, which ring up on average $900,000 a year, officials claim.

Delivering value is the mantra at Church's, where a customer can buy a leg and a thigh for 99 cents.

Within a minute of opening a bag of powdery flakes and whisking them into hot water, Alexis Igor Kobernyk has made a batch of mashed potatoes. He scrapes them into a stainless steel pan in a Church's Chicken in Atlanta before turning to his next task: dropping Jalapeño Cheese Bombers into hot oil. It's all part of his 10-day executive training program.

The company he works for, European Active Corp., has agreed to open 100 units within the next 10 years in Russia, Belarus, Ukraine and Kazakhstan. The first opens this month in St. Petersburg, the second on Red Square in May. Kobernyk, an operations specialist, will run the franchise. "Next week I'm sending three managers here," he says in perfect English. "They all speak English or Spanish." Most of the crew, including the general manager, are Hispanic.

Kobernyk is a part of Church's ambitious expansion plan, which includes populating Europe, Asia and the Middle East with its fried-chicken restaurants. Plans also call for aggressive growth in company markets, particularly in central and south Texas, where a single unit can ring up $1 million.

"We would like to be company-centric and allow franchisees to be franchise-centric," says CEO Harsha Agadi, sitting in a unit 10 miles from his office in Atlanta. A map displaying the chain's budding global empire is tacked to a wall near one of the entrances.

The company already boasts 400 international branches—all franchised—in 20 countries, making it the second largest chicken chain after KFC outside the United States. Privately held Church's won't disclose what portion of last year's $285 million in revenues came from international royalties and franchise fees. Estimates are unreliable because foreign deals vary due to franchise laws and types of agreements (master, sub, etc.).

Officials expect to grow their international business by 50 percent, with foreign franchisees opening 60 units in 2007, 10 more than last year. Says Aslam Khan, one of Church's largest U.S. franchisees: "International is booming."

This year, outlets will pop up in Bahrain, Qatar and Oman, part of a recently signed 40-unit agreement. Separately, a franchisee will also open a restaurant in Jordan. The company is also pursuing agreements in China, India and Korea.

### The American Way

In Muslim countries, the restaurants go by the name "Texas Chicken" to avoid offending anyone. "We use Texas Chicken in countries that are Islamic because 'Church's' might create a stir," Agadi explains.

The name change, however, won't stand in the way of touting the brand (founded in Texas 52 years ago) as purely American—key to keeping locals pushing through the doors. "We are unabashed about being made in the U.S.A. We say, 'If you want an American experience, come to Church's or Texas Chicken,'" declares Agadi, a Hindu.

He believes a blatant link to all things American will be particularly effective in his native India, especially in cities like fast-growing Bangalore, known as an outsourcing powerhouse. "A big outsourcing population is good for us," he says. "They are very American, wearing Levis, drinking Coke and using Dell computers. They want to be American quick." The chain may have a restaurant up and running by the end of the year, according to Agadi, who visited the subcontinent in March.

### Bitter Rivals

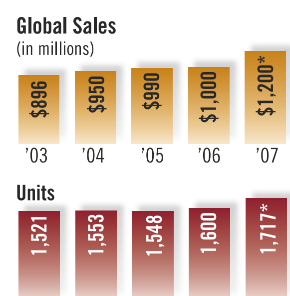
Agadi became chief executive on Dec. 26, 2004—a date he dubs "Independence Day." It was the day the deal closed on the sale of Church's, a $390 million transaction that shifted ownership from AFC Enterprises to Crescent Capital (now called Arcapita), a private-equity firm based in Manama, Bahrain, which once owned Caribou Coffee.

**SNAPSHOT**

**Concept** Church's Chicken
**Headquarters** Atlanta
**Worldwide Units** 245 company, 1,365 franchised
**2007 Systemwide Sales** $1.2 billion (company estimate)
**2007 Revenues** $300 million (company estimate)
**Average Unit Volume** $700,000
**Average Check** $6.95
**Expansion Plans** 15 company, 102 franchised in 2007


Portrait by Kingmond Young


### Church's Quickens its Global Pace




*Source: company reports, Technomic Inc.; *company estimate*


## Overseas franchisees will open 60 restaurants in 2007, 10 more than last year.

Church's had finally won the freedom to enlarge its menu with a spicy jalapeño-cream sauce and sandwiches. Under former owner AFC, spicy menu items were the sole domain of sibling rival Popeyes Chicken & Biscuits, despite the fact they have been extremely popular among fast-food consumers—particularly Latinos and African-Americans, Church's heaviest users—for years.

"When Church's wanted to do spicy chicken, it was denied," recalls Atlanta public relations executive Ellen Hartman, who was vice president of corporate communications for AFC until shortly before the acquisition. "There was a stiff rivalry there."

Today, officials are broadening the menu even more, adding jalapeño-spiked cheese and Buffalo ranch and barbecue sauces. "Our [menu] strategy centers on line extensions," says Chief Marketing Officer Farnaz Wallace, whose TV budget to promote the spicy food combinations totals $17 million. To put that figure in perspective, KFC reportedly sunk $200 million five years ago into an ill-fated campaign that featured actor Jason Alexander.

Despite playing catch-up, the gambit seems to be working. Same-store sales have remained positive since spicy chicken was introduced in July '05. Comparative sales rose 2.4 percent in '06, and Agadi predicts a 2 percent to 3 percent increase this year—slightly below most estimates for the quick-service sector.

### No Love Lost

Still, ill feelings between the chains apparently remain well-entrenched. AFC-owned Popeyes sued Church's in February, alleging that Church's officials "induced or procured the responsible franchisees and guarantors to unilaterally, and illegally, attempt to terminate their contracts with Popeyes." Popeyes is seeking $20 million in damages.

Church's declined to comment on the lawsuit for this story. In a press release, however, a spokeswoman denies wrongdoing: "Church's purchased vacant assets in a com-

“Our profitability has gone up 50 percent since the Arcapita acquisition.” —***CEO Harsha Agadi***

petitive bid situation, which is a common and accepted proactive.”

“This [type of lawsuit] doesn’t happen a lot,” says Jordan Krolick, a lawyer and former chief development officer for Arby’s. “But a [franchise] contract doesn’t mean servitude. You can break it and the other is also entitled to break it.” If, however, Church’s encouraged the franchisee to break the contract, “that’s not a good thing,” Krolick warns.

The action was prompted by Church’s sudden acquisition of 10 Popeyes and the subsequent conversion of six in the Texas Rio Grande Valley, a move that caught Popeyes by surprise and left only Church’s and KFC sharing the lucrative fried-chicken market in the three-county area. Agadi claims several existing units in the area ring up $1 million-plus. It’s a huge number, considering the system average for the chain’s 1,210 domestic restaurants is $700,000.

Still, the deal eliminated a competitor. As a result, Church’s has 39 units there, three times as many units as KFC.

Before Popeyes filed the lawsuit, Church’s Chief Franchise Officer Doug Pendergast described the acquisition in a press release as “aggressive and creative” and “only one example of that thinking.” Agadi, who is munching on Jalapeño Cheese Bombers as he skips from topic to topic, can think of others. “We do encourage franchisees to acquire stores,” he says.

Khan, for example, who operates Church’s in Chicago, Detroit, St. Louis and Akron, Ohio, is eyeing units in Toledo, where he has already performed fee-based management services for the local franchisee. The company, on the other hand, wants to hang on to its core markets, among them Atlanta, Dallas, San Antonio, and McAllen and Austin, Texas, where it operates many of its 245 stores. “I’d

*Portrait by Kingmond Young*

**Pony up: “When we put together the new senior leadership team, every member who reports to me had to write a check approximately equal to half of his annual salary to buy shares,” Agadi says.**

**(Opposite) Company officials insist they can convert nearly any QSR building into a gleaming Church’s restaurant.**

**Church’s is unabashed about marketing its products around the globe as authentic American-style food.**

“We had a single flavor, bone-in chicken when we acquired the business. Now we will continue to innovate.” *—CEO Harsha Agadi*


like to acquire more units in McAllen,” muses Agadi. Later, he adds, “The word on the street is that Church’s is looking.”

### Cost Cutter

Sales haven’t been Agadi’s only path to profitability. Since arriving, he has aggressively cut costs. Today fewer than 100 employees work at headquarters. Accounting and IT have been shipped to India. Payroll is off-site. Rents have been re-negotiated. Says Pendergast, a former AFC executive who recommended Agadi to the new owners: “I saw that Harsha had the willingness to make changes and tough decisions.”

Arcapita has also been supportive, according to Agadi, who says the equity sponsor refrained from piling debt onto the company books, which would have constrained his efforts to, say, acquire units in lucrative markets or add more field supervisors. Arcapita, however, did insist that the senior leadership team sink an undisclosed portion of its own money into the business as an incentive to increase value. They will own about 15 percent of the business if and when Arcapita decides to exit, Agadi says.

He estimates that if the company can keep a lid on costs and open a projected 117 restaurants here and abroad in ’07, the balance sheet will show a debt-to-equity ratio of merely three times EBITDA on target revenues of $300 million. “That’s a pretty nice situation to be in,” Krolick declares.

It would put an increasing amount of free cash at Agadi’s disposal, adding to the roughly $50 million he’s already made in capital improvements, sprucing up older company restaurants and designing a prototype that seats 45 to 60 people in 1,600 square feet, smaller than most existing Church’s.

“We have shrunk from 2,400 square feet. The last 50 or so restaurants, all prototypes, have averaged $900,000 in sales,” he claims, adding freestanding Church’s units cost just $400,000 to build.

The total investment including equipment, signage, soft costs and franchise fees is more like $620,000, acknowledges Restaurant Research Principal Wally Butkus, who tracks the unit economics of large chains. Using $1 million in sales as a marker and a building-only cost of $628,000 (both supplied by Church’s), he calculates a sales-to-investment ratio of 1.68 times—a ratio higher than either Popeyes (1.4 times) or Bojangles’ (1.3 times).

“Church’s benefits from having a smaller building,” Butkus concludes, citing Bojangles’ units, which run from 2,500 square feet to 3,500 square feet. That benefit is clearly seen in a 26.4 percent EBITDAR (earnings before interest, taxes, depreciation, amortization and rent) margin, a compelling return on investment by most standards, according to Butkus.

Declares Pendergast: “That number has gotten our phone ringing.” From Russia and beyond. ■

**Seeing is believing: Chief Marketing Officer Farnaz Wallace claims research shows customers like to see Church’s products made in front of them. “Customers view the process as authentic,” she says.**

**Food that’s crunchy on the outside and juicy within is the effect that Church’s tries to achieve. Says Agadi: “It’s a very important taste profile for urban youth.”**

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Gold Star Chili rolled out reloadable gift cards, in denominations from $5 to $50, in November 2005. "People use them like cash," says Mike Mason, director of operations for the Cincinnati-based chain.


# Card CARRIERS

## Gold Star Chili switches to gift cards from gift certificates, with little trauma. **By Lisa Bertagnoli**

Gift cards are the trend of the present as well as the wave of the future. This past holiday season, gift-card spending totaled $27.8 billion, with the average customer spending $164.81 on gift cards, according to a survey by the National Retail Federation.

The gift-card craze extends to restaurants, too. Last year 57 percent of consumers gave or received a restaurant gift card, and the average total value of those cards was $80. That's up from 54 percent and $65 in 2005. This year, 92 percent of consumers say they plan to buy more or the same number of restaurant gift cards as they did in 2006, according to research by Technomic Inc., a Chicago-based research firm.

Anticipating those numbers, in November 2005, Gold Star Chili switched from paper gift certificates to electronic, reloadable gift cards with denominations from $5 to $50. "They're like credit cards," explains Mike Mason, director of operations for the Cincinnati-based, 105-unit company. Gold Star began accepting credit cards about six years ago: "We had to do it to stay competitive," Mason says.

Gold Star was also looking to discontinue its paper gift-certificate program, Mason adds. Paper certificates are more prone to fraud, thanks to advances in paper-copying technology. Even more important, customers were demanding electronic cards. "People are not tolerating paper as much as they used to," Mason says.

### A Technological Challenge

Gold Star called on its bank, Cincinnati-based Fifth Third Bank, to set up the gift-card program. Fifth Third and other banks such as Chase and Bank of America handle gift-card programs, as do independent companies, for instance, Brentwood, Tenn.-based Comdata.

Gold Star and Fifth Third faced several challenges in setting up the program, Mason says. First, the restaurants, 90 percent of which are franchised, do not use a PC-based register system, meaning the registers at the different locations are not linked to each other. For that reason, Gold Star had to choose technology that would reconcile gift-card purchases and redemptions in a way that was fair to franchisees. Another

**SNAPSHOT**

**Concept** Gold Star Chili
**Headquarters** Cincinnati
**Units** 105
**2006 Systemwide Sales** $70 million*
**Average Unit Volume** $650,000*
**Average Check** $8.25
**Expansion Plans** 3 or 4 this year

**Chain Leader* estimate

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A central account enables Gold Star Chili to reconcile gift cards purchased at one location but redeemed at another.

Long known for its unique way of serving chili over spaghetti, Gold Star Chili switched to electronic gift cards from paper certificates after customers demanded it.


challenge was dealing with the paper gift certificates still in circulation.

A final issue was "breakage," which is the money left when a gift card is purchased, but never redeemed. Breakage isn't small change. TowerGroup, the Needham, Mass.-based financial-services research firm, estimates that approximately $8 billion of the $80 billion spent on gift cards last year will never be redeemed. In addition to their convenience and marketability, breakage is one reason retailers love gift cards. "It's free money that's never redeemed," says Mason.

### The $400 Solution

Fifth Third Bank solved the technology issue by outfitting each restaurant with a credit-card processor. The processors, which connect to the register with a phone line, cost about $400 per store; outfitting each store with a new PC system would have cost around $20,000, Mason says.

The bank addressed reconciliation and breakage by setting up a central gift-card account. When a customer buys a gift card, the payment goes into the cash register. At the end of the day, Fifth Third deducts the amount of that purchase from the location's register and deposits it into a central holding account.

When the customer redeems the card at another location, that location is credited the amount of the gift-card redemption out of that same gift-card "kitty."

Fifth Third charges a transaction fee for handling the gift cards and for other services, such as when a franchisee calls to check a balance. Mason points out that Fifth Third, not Gold Star Chili, controls the account.

The setup is typical for franchised

systems, according to Patrick Moran, vice president of portfolio and product management at Fifth Third Bank. He adds that it's crucial for a gift-card program to be rolled out smoothly. "People expect it to work perfectly," Moran says.

As for paper certificates, Gold Star stopped selling them in July 2005 to prepare for the transition and destroyed all unsold certificates. The chain gave customers 18 months to redeem the paper certificates, encouraging them to do so via in-store marketing materials.

To prevent gift-card fraud, Fifth Third installed triggers that, for instance, alert the system if a card is reloaded more than a certain number of times over a short period. "So far, that's happened once," Mason says. The chain will cancel the balance on a suspect card, he adds.

### Feeding the Ad Monster

At Gold Star, gift cards account for about 5 percent of sales, and Mason says the chain enjoys an 80 percent redemption rate. "People use [the gift cards] like cash," he says.

Gold Star has decided to funnel any breakage into the chain's advertising association, which is handled by franchisees. "That's something we felt we had to do from an ethical standpoint," Mason says.

Marc Rulli, a franchisee with four Gold Star restaurants in Kentucky and Indiana, agrees. "We look at it as a partnership, and it's the right decision to make," says Rulli, who serves on the franchise advisory council board. "We understand that feeding the advertising monster helps us long term."

Rulli, a franchisee since 1999, was happy to see Gold Star launch a gift-card program. "We're doing significantly greater gift-card sales than with paper," Rulli says, though he says he isn't sure of the exact figure. He adds that the rollout, from a technological standpoint, went smoothly, and the learning curve for staff was slight.

Gift cards make sense from a marketing point of view, too. "The industry is moving in that direction," Rulli says, noting that Gold Star began offering gift cards a year before QSR giants such as McDonald's and Wendy's did. "I would say we saw the future and took advantage of it." ■


Gift cards account for 5 percent of overall sales at Gold Star Chili.

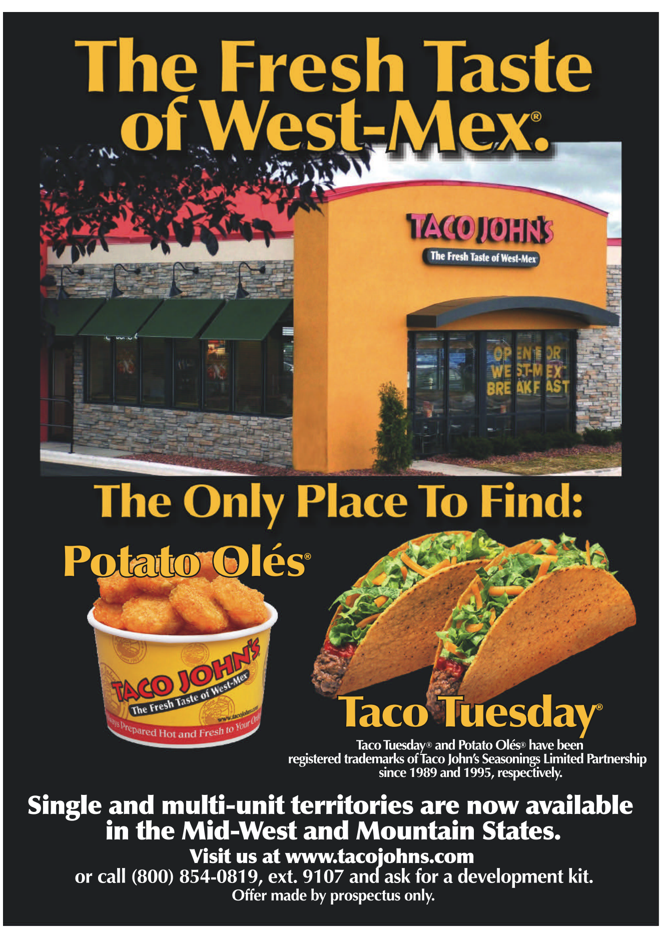
# Franchise Developer

An intranet system helped Buffalo Wings & Rings grow from six stores in 2005 to 15, with 24 more under construction.

## Intranet Insights

An intranet (an internal, password-protected Web site) can help area or master developers build a sense of community while streamlining time and costs, says Philip Schram, president and CEO of Cincinnati-based Buffalo Wings & Rings. He developed an intranet system called Paljunction that helped revitalize the chain, which he acquired in 2005. "It has created a huge competitive advantage," he says. Here are his tips for how to get the most from an intranet system:

- **Community Building.** An online bulletin board lets members quickly get news, learn about new products and pricing, and interact with new franchisees coming on board. "One of our core goals was to develop a feeling of community," says Schram. Seek input from franchisees on what information they consider useful, and require everyone to log on and check the bulletin board at least once a week, Schram recommends.
- **Document Hosting.** Keep all the documents needed to operate a franchise unit (operating manual, logos, promotional fliers and customer-satisfaction surveys) on the intranet for downloading by franchisees. "Before, we would get logo requests two or three times a day; now we barely get any," says Schram.
- **Online Payment.** Incorporate a secure online EFT (electronic funds transfer) tool to streamline accounting and payments. "If a franchisee needs to calculate royalties and write a check, that takes time," says Schram. "We have reduced the time we were spending to collect the royalties by 90 percent." Franchisees also use the intranet to order products from suppliers and perform a weekly review of their P&L statements.
- **E-training.** Training new employees is often a huge burden on the franchisee. Schram's unit managers will soon be able to use the intranet. "We're developing an e-learning center that will be a training tool and quiz-management system," he says.
- **Sourcing an Intranet.** You can hire a company to develop an intranet system or develop your own to avoid monthly per-user fees, says Schram, who developed www.paljunction.com from some software he bought on eBay and then refined with an IT-savvy business partner. The total cost of developing the tool over five years was $150,000, he estimates. "Even at twice the price, I would still do it," he says. "It's really a tool of growth."

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# HIGH **Flying**

Beef 'O' Brady's Chuck Winship reaps the benefits of piloting his own airplane.

**By Maya Norris**

Chuck Winship is always on the go. The CEO of Tampa, Fla.-based Beef 'O' Brady's Family Sports Pub, a 218-unit chain, spends a majority of his time visiting stores and meeting with franchisees. But instead of hitting the road, he takes to the skies to fulfill his duties while indulging in his passion for flying.

Winship flies his single-engine Cessna 210 about three times a month. Although he mostly travels in the Southeast, where most of the restaurants are located, he sometimes visits units as far as Texas and Minnesota.

CEO Chuck Winship flies his Cessna 210 three times a month to visit Beef 'O' Brady's restaurants. "To me it's a great hobby. It just fits right into what I'm doing in my business," he says.

Winship prefers flying his own plane over commercial travel. He no longer has to work around airline schedules, flight delays and airport security. "I've done flights on weekends that I just wouldn't do otherwise. I can leave my house in the morning and travel to a store and visit the store for two or three hours and then fly back home," he says.

## Preparing for Takeoff

Winship became interested in flying when he and Chairman Gene Knippers worked for Chili's in the early '90s. Knippers, a pilot for the past 50 years, often flew to cities where units were under construction. "That's when I saw the real advantages to flying," Winship says. "One day we stopped in four different markets throughout Alabama, Georgia and South Carolina."

But it wasn't until 9/11 that Winship began to seriously pursue his pilot's license. "I just saw flying was going to be a lot more uncomfortable," he says. "And at that point in our growth, we were moving outside of Florida."

Winship spent eight months studying for his private pilot's license, which he earned in June 2002. The next year he earned his instrument rating so he can fly in weather conditions that could obstruct his visibility. And in 2004 he earned his multiengine rating.

Keeping up with aviation training takes up a lot of free time, but Winship says it's worth it because flying gives him the chance to travel and meet new people, especially other pilots. "Pilots are all passionate about flying," he says.

## Flight Plan

While Winship flies mostly for business, he flies his wife, Nancy, and their two children, Kelley, 17, and Charles, 15, to their ranch in Texas several times a year and to their annual reunion in North Carolina. Winship also flies his son and daughter to their summer camps in North Carolina and the Florida Keys, respectively. And they most recently flew to Miami to watch the Superbowl in February.

Although piloting his own plane is much more efficient for Winship, he says there is a price to pay. "Aviation fuel is averaging between $4 and $5 a gallon, and I'm burning 16 gallons an hour. Once you add in hangar and insurance and maintenance, the total cost of aircraft ownership is several times what your fuel costs are on an hourly basis. So it's not cheap," he says. "But you're paying for convenience. And in my case it's a hobby, so I'm combining work and a hobby." ■


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