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Information

July 2007

INSIGHT FOR RESTAURANT EXECUTIVES

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Clear Focus

Research and brand synergy are driving strategy at Focus Brands.

PAGE 30

Steve Romaniello, CEO, Focus Brands

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Kona Grill's menu brings
Pan-Asian to the masses.

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Mr. Goodcents' new POS
system enables speed
now, more benefits later.

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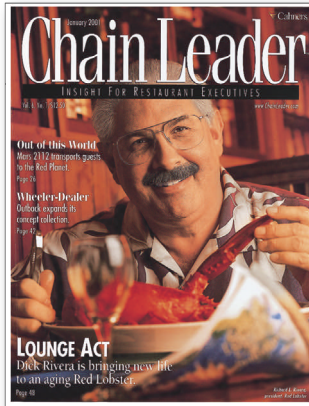
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Mutual Benefit



Industry veteran and NRA chair Dick Rivera says immigration reform ensures a better future for immigrants, restaurants and America. **By David Farkas**

The National Restaurant Association says restaurants will add 2 million jobs over the next decade, a 15 percent increase in the work force. Yet the Bureau of Labor Statistics estimates that the U.S. labor force will grow just 10 percent. Without an

overhaul of immigration laws, the industry may not have enough workers, argues NRA Chairman and Rubicon Enterprises CEO Dick Rivera. The former T.G.I. Friday's CEO and Red Lobster president, who appeared on *Chain Leader's* January 2001 cover, says a pathway to legal status for undocumented people may help solve the industry's labor shortage. He shared his opinions in an interview at the NRA's Restaurant, Hotel-Motel Show in May.

Let me ask you a tough question on immigration reform. And I might as well just ask you point blank. In Atlanta there are a lot of Mexican-Americans, a lot of undocumented workers. Do you have any working at Marlow's Tavern [one of Rubicon's concepts]?

To our knowledge we don't. We are actually pretty thorough going on the whole I-9 process and checking documentation. It could be that we have people who have fake documentation. I'm not sure we'd have a way of knowing that.

Do you support a pathway to citizenship for illegal aliens who are law abiding and employed?

Absolutely. I do personally, and the NRA does. Look, here's the thing. We have an industry where the job demand is growing at twice the rate than it is in the rest of the country. In other words, we're creating jobs that much faster. And the age group that we primarily draw from is going to be flat in terms of growth over the next 10 years. And so do we need the workers? Absolutely.

So our whole notion is, we ought to have

guest worker permits, give them IDs—we should be able track them from a security perspective, so that's not an issue. Let's give them the guest worker permits and allow them to work, and let's provide a pathway to citizenship.

Of all the developed countries, we are the only one that has a birth rate above sustaining our population. Everyone else is in a declining state—Germany, England, France, you name it. Why is that? Because we have immigration, and the immigrant population is growing at a slightly faster rate, and it enables us to continue our population growth.

That's important for a couple of reasons. That's the future workers of America. But even more than that, it brings an energy and a creativity and a drive that has always been associated with immigrant populations. And we need that if we're going to maintain our economy and maintain our pre-eminent place in the world.

Of course, not everybody shares that opinion. How do you answer the AFL-CIO's John Sweeney, who has said a pathway would give employers a labor pool, I quote, "To exploit and drive down wages, benefits, health and safety protections..."

Well, I would just cite some examples. Three out of four foodservice managers, when they entered the industry, began at the starting wage. The average foodservice manager today makes a little more than \$45,000 a year, which puts them in the top half of all household incomes in the country. So I would say, these are not dead-end jobs, they're starting jobs. Most people who come in our industry, it's their first job; they're learning about standards, quality, teamwork, discipline—who's teaching them is the employer. They're starting jobs. If they want a career, they could have it, and when they do, they make good money. That's what I would say. ■

The *Chain Leader* Cover Society is made up of the executives who have appeared on the cover since the magazine's debut in August 1996. This occasional feature updates readers on a Cover Society member.

on the web: For more from Rivera about his restaurant company, Rubicon Enterprises, restaurant finance and the state of casual dining, download a transcript or view the extended interview at www.chainleader.com.



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INSIGHT FOR RESTAURANT EXECUTIVES

Vol. 12, No. 7/July 2007



■ cover story

Clear Focus 30

CEO Steve Romaniello is depending on research and co-branding to boost sales and gain market share for Focus Brands' stable of concepts. Schlotzsky's Deli will begin co-branding with Cinnabon and Carvel Ice Cream. In the meantime, the holding company is also busy with its upcoming acquisition, 345-unit Moe's Southwest Grill.

By David Farkas

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Bridging the Generation Gap 20

HoneyBaked Ham hopes to reach a wider demographic by relaunching its HoneyBaked Ham Cafe concept. Sandwich shop meets retail store, the cafe offers to-go services for meats, side dishes and catering, as well as a menu of made-to-order sandwiches in a space with lunch-time seating.

By Margaret Littman



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Corporate Executive Chef Zach Bredemann spent two years tweaking and standardizing Kona Grill's recipes and systems. As the 16-unit chain moves into growth mode, Bredemann scrutinized 55 menu items and 40-plus sauces, streamlining labor and enhancing training along the way.

By Monica Rogers



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Little Caesars launched its U.S. Military Veterans Training Program in 2006, which offers special services and discounts to veterans who want to become franchisees. Beyond patriotism, the pizza chain feels veterans have the discipline to succeed.

By Lisa Bertagnoli

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Mr. Goodcents Subs & Pasta has updated its POS system to make order-taking faster and more accurate. And soon the 115-unit QSR will use the new system to launch a customer rewards program and a gift-card program.

By Lisa Bertagnoli

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- Mr. Goodcents Subs & Pasta is using its updated POS system to revamp and streamline its menu
- CEO Steele Platt elaborates on Yard House's expansion strategy
- Our *Best Places To Work* supplement is too big for the magazine alone

Cover Society Podcasts

- Rubicon Enterprises CEO Dick Rivera chats about immigration reform, his restaurant-management company, restaurant finance and the state of casual dining
- Frank Day discusses challenges for Rock Bottom and its segment

How to Grow to 100 Units

- Franchising consultant Richard Sharoff looks at several factors to determine if a concept is ready for franchising
- Web-exclusive content and related articles on growing concepts
- Video coverage of *Chain Leader's* "How to Grow to 100 Units" roundtable

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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I found leaders at a recent WFF gathering. Where are yours?

Discovering Talent



Mary Boltz Chapman
Editor-In-Chief

If you think you meet amazing people at the annual Women's Foodservice Forum conference, you should volunteer for one of the organization's committees and work with them. We just completed our summer meetings, which kick off the "volunteer year" for WFF, and I'm still awed by the quick pace of the working sessions, the depth and amount of planning done, and the number of tasks already checked off.

Doing Well by Doing Good

As with any successful organization, what makes this happen is the workers, which in this case happen to be volunteers. There are women and men, CEOs to multiunit managers, entrepreneurs and corporate administrators, restaurant operators and foodservice suppliers. A constant theme among them is the desire to give back, to support a cause that they believe in. But even more than that, the volunteers talk about all they've gained from the experience.

One woman told how she began working with WFF when she was a director in the restaurant chain where she works. After trying on some new hats while doing committee work like finance and strategic planning, she was able to show her superiors that she was ready for more responsibility. Now she's a vice president, and she continues to look for experience that will help her move up.

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Tell Us About Your Up-and-Comers

Chain Leader is looking for young leaders just like her. A few years ago, we created the Protégé award to recognize them. We developed the honor as part of our *Chain Leader* Execution Awards, which we will present at the *Chain Leader LIVE* conference Oct. 24-26 in Newport Beach, Calif.

In the past we've honored John Metz, Atlanta-based chef and co-owner of Hi Life Kitchen & Cocktails, Aqua Blue Restaurant and Marlow's Tavern; Billy Downs, founder,

CEO and president of bd's Mongolian Barbecue, the Ferndale, Mich.-based make-your-own-stir-fry concept; and Jeff Sinelli, founder and president of Dallas-based sandwich chain Which Wich.

The winner will be under 40 and ready to take the next step to executive leadership. He or she might be running regional operations for a handful of units or starting a new chain concept. He may have created a system to measure and reward employees' progress. She may have turned an underperforming menu line into best sellers. The individual will have shown measurable achievement, strong leadership and great promise.

Naming Names

You know people like this. Perhaps they work for you or a competitor, they impressed you at recent conferences, or they feed your family at least once a week. You can picture their faces on the cover of *Chain Leader*, because it won't be long until they reach that level.

Tell us who they are and why they deserve this award. Drop me a line at the e-mail address at the bottom of this page by Aug. 24. Keep it brief: under 250 words. We editors will read each submission, do some research and select the best. Then watch for the top contenders to be featured in the pages of the magazine, and come celebrate the winner at *Chain Leader LIVE*.

I hope the boss of the woman I told you about is reading this. ■

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

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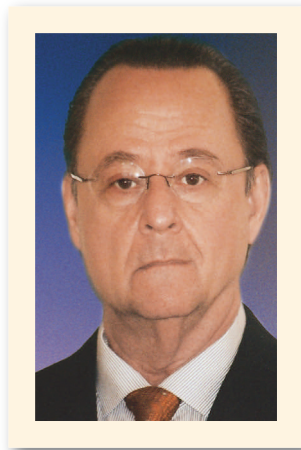
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Value Proposition



An operator turned investment banker says stick to the basics. **By David Farkas**

RWallace Hite, a principal in Nashville, Tenn.-based Strategic Advisory Partners, is a different kind of investment banker—he once operated restaurants. We recently caught up with the former Sonic Corp. official after hearing a presentation he made about restaurant valuations in Chicago. *Chain Leader* asked him to elaborate on several of the points he raised.

You mentioned that by focusing on the basics, companies can positively affect their values. Give a real-life example.

I can't disclose names, but I can tell you about a small company, under 10 units, that developed judiciously and concentrically. They focused on same-store sales and unit economics. They kept their [general and administrative costs] at a level commensurate with their sales. They built a company as if they would own it forever. They sold at 9.5 times EBITDA.

You also advised operators to fully understand prime margin. Why is this important to valuations?

Because it is a key component in unit economics, which drives the investment. There is a great deal of art in our business, but it's a business and it needs to make a return for the investors both on their money and their time.

Here's another way to view prime margin: It tells you how many dollars are available for debt service or fixed expenses. Obviously there are other controllable expenses, but they are usually in the 10 percent range of sales.

What should prime margin be?

[Meeting host Brad Saltz of SS&G Financial Services] made a compelling argument that the number needs to be at least 40 percent to realize a respectable ROI. I would add that 40 percent or better—but never at the expense of the customer—takes risk out of the investment and indicates the potential for continued growth and a stable company.

It caught my attention when you praised an operator who has put up 30 percent of the investment in each of his 147 units.

Many of the troubled companies I deal with share a common error. They leverage the restaurant at 100 percent or more. The only sure thing in the restaurant business is that something unexpected is going to happen. Equity allows for the unexpected. The company I referenced in my talk has been in business for over 30 years and is now valued in the hundreds of millions.

So why don't others in this business follow suit?

Patience. We're in a hurry to get to the finish line, and most operators don't have the unencumbered cash for a 30 percent equity injection. I am not even sure if 30 percent is the best number, but 20 to 25 percent is a good range for equity.

What attracted you to investment banking after a career running restaurants?

As a partner in taking a public company [Sonic] private and then taking it public again, I had to interact with bankers frequently. Their perspective was always from the outside looking in, rarely understanding their impact on the organization. The opportunity to bring a fresh perspective to the industry coupled with the diversity of clients and client situations was very compelling and challenging. ■

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Urban Artisan

Urban Flats jazzes up flatbreads with upscale ingredients in a modern setting. **By Maya Norris**



The \$11 Crab Cakes, baked in Urban Flats stone-hearth oven, is a top seller on the Small Plates section of the menu.

Urban Flats recently added the \$10 Spicy Tuna flatbread, with seared raw tuna, cucumber, red onion, tomato, sweet chili sauce, spinach and lime-ginger glaze.

The popular Flat Dips appetizer features spreads such as hummus served with warm flatbread, which is baked daily.

Flatbreads have been around for centuries, but they've only recently emerged as the latest must-have item on menus, popping up at chains from Dunkin' Donuts to Seasons 52.

For Urban Flats, however, flatbreads are more than a trend—they are the focus of the six-unit concept's menu. Founder and CEO Suzanne Bonham says her sophisticated interpretation of flatbreads will separate it from the pack as Urban Flats embarks on franchised expansion this year.

"I wanted to go where old meets new," says Bonham, who founded the concept in 2004. "We're a new niche in flatbreads with a modern, new environment with modern, new ingredients."

Modern Sensibility

Urban Flats makes its flatbreads daily in a gas-fired stone-hearth oven and tops them with upscale ingredients. Best sellers include the Fig and Prosciutto, \$9, with fig jam, shredded prosciutto and blue cheese; Steak and Portobello, \$10, with fontina cheese; and Chicken Caesar, \$10, barbecue chicken, romaine and Parmesan. The menu also offers appetizers, salads, wraps, small plates and desserts.

Everything is cooked in the oven except desserts, which a bakery provides. With only one major piece of cooking equipment, Urban Flats is easy to operate and duplicate and capitalizes on consumer demand for healthful, fresh fare, according to Bonham, a certified sommelier who worked at Walt Disney World for 10 years developing and rolling out restaurants including Jiko: The Cooking Place

at Disney's Animal Kingdom Lodge and Ohana in the Polynesian Village.

The wine bar is also crucial to Urban Flats. It features about 55 varietals by the bottle and 30 by the glass in 6 ounce and 3 ounce pours. A wine-dispensing system keeps the opened bottles on tap while preserving them at their ideal temperatures, preventing oxidation and spoilage.

The contemporary decor features exposed ducts, stained concrete floors, white walls and brown leather booths. Each unit has photography that showcases its city's landmarks.

Urban Sprawl

With five company units in Florida, Urban Flats will expand through franchising in the Southeast over the next three years. Franchisees will open four units this year, 10 in 2008 and 30 in 2009.

The company is looking for experienced operators willing to open more than one unit. TL Cannon Companies, which franchises 61 Applebee's, will open 10 units in North Florida in five years. It opened its first in Ponte Vedra Beach, Fla., in February. Atlanta Flatbread LLC, headed by former Waffle House executive Bob Rogers, will open five in Atlanta over three years; the first will open in August. Tony Euwonaitis, a former joint-venture partner of 15 Bonefish units in Florida, will open 15 in five years in West Florida, with the first slated for Sarasota in September.

It costs about \$600,000 to \$800,000 to open an Urban Flats, which averages 4,000 to 5,000 square feet. Urban Flats looks for endcaps in urban areas where the household income is at least \$50,000.

"I want to make sure we're growing this thing and it's now growing us so that we stay on top of the growth and not grow too fast," Bonham says. "We want to make sure we grow at a nice healthy rate and do it right because to me that's more important than getting the concept out there." ■

SNAPSHOT

Concept Urban Flats
Headquarters
Orlando, Fla.

Units 6

2007 Systemwide Sales \$9.5 million*

Average Unit Volume
\$2 million*

Average Check
\$13 lunch, \$20 dinner

Expansion Plans
4 by year-end, 10 in 2008, 30 in 2009

*Chain Leaderestimate

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O'Charley's has been creating benchmarks so it can determine whether self-manufacturing and -distribution is the best value for the company.

Taking Stock

At O'Charley's, taking inventory in the supply chain means much more than counting product.

By Mary Boltz Chapman

Since Larry Taylor joined O'Charley's Inc. as chief supply chain officer in June 2006, he's been evaluating 20 years of purchasing practices. The Nashville, Tenn.-based company, which also owns Ninety Nine and Stoney River, distributes all the products to its stores and manufactures much of it as well.

Taylor, whose resume includes Carlson Companies, Pizza Hut, Taco Bell, Burger King and McDonald's, says he's been spending most of his time benchmarking.

Starting Point

Key to that is strategic sourcing reviews. In many organizations, Taylor says, buyers begin with a request for proposal from suppliers, then base their decisions on price and perhaps a few other variables.

"[O'Charley's has] 10 steps to the sourcing process, and No. 8 is the RFP," he explains.

The previous steps involve analyzing industry cost drivers, the customer base and sourcing strategy. "All of these steps happen before you ever get to the RFP, which is almost the culmination," Taylor says.

Taylor created balanced score cards to ensure that O'Charley's supply chain was working toward the same objectives as the company. All of his employees then understand how their roles contribute to the organization. The four major areas measured are finance, customer service, process and technology, and people development.

Once the team's strategy was in place, it focused on specific metrics. "We had to have the metrics in place to at least have the orga-

nization understand the value that the supply chain brings," Taylor explains.

For example, the company can now track competitive advantage. "When you contract a price, you want to show the organization that there is either a competitive advantage or disadvantage," Taylor says. "And over the long haul, there ought to be an advantage."

Decision Making

Taylor is using the metrics to determine if self-manufacturing and -distribution is still the best value. O'Charley's operates facilities in Nashville and Woburn, Mass., where Ninety Nine is based, to supply its stores twice a day. Based on value analysis, the company decided to close the manufacturing facility in Woburn and discontinue the production of salad dressings completely.

"And we are examining whether a meat manufacturing facility and self-distribution still make sense," he says. "We want to grow our concepts. I tie up a lot of capital in many of the supply-chain activities. That's one of the reasons benchmarking has become so important."

Meanwhile, Taylor will continue to optimize the supply chain at O'Charley's, looking for synergies across the three concepts such as common products, partnering with non-competitive companies for purchasing co-ops, and working with supplier partners to drive costs out of the system.

All of it based on benchmarks, Taylor explains: "You first capture data, and then you're able to mine the data. Now what is it telling us?" ■

SNAPSHOT

Company O'Charley's Inc.

Headquarters

Nashville, Tenn.

Concepts

O'Charley's (239 units, \$12.40 check average); Ninety Nine (114 units, \$14.46 check average); Stoney River (10 units, \$43.75 check average)

2006 Revenue

\$989.5 million

Expansion Plans

4 to 6 company, 3 franchised O'Charley's; 3 to 5 Ninety Nines; 1 or 2 Stoney Rivers in 2007

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■ how to grow to 100 units



RISING to the Occasion

Rising Roll tightens the menu and operations to keep franchisee profitability top of mind. **By Maya Norris**

SNAPSHOT

Concept

Rising Roll Gourmet

Headquarters Atlanta

Units 13

2007 Systemwide Sales

\$11.5 million*

Average Unit Volume

\$800,000*

Average Check \$8.25

Expansion Plans

5 in 2007

*Chain Leader estimate

When Rising Roll Gourmet decided to franchise in 2003, the fast-casual, lunch-only concept had two units ringing up \$2 million in systemwide sales and positive reviews for its gourmet sandwiches from the local media in Atlanta as well as the Zagat guide. But founders Jeff and Bob Weiss knew that it would take more than great sandwiches to successfully duplicate Rising Roll.

That's when the father-and-son team brought in Mike Lassiter, CEO of Atlanta-

based Franchising Concepts. Lassiter spent four months preparing Rising Roll for franchising by analyzing and improving its menu, labor costs and prototype.

"When we looked at this, we said, 'OK, franchisee profitability has to be our No. 1 goal,'" says Lassiter, who now serves as president of Rising Roll. "So if we focused on the franchisee, we truly felt our concept had the legs and the long-term viability to be very successful."



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Less Is More

Rising Roll honed its extensive menu of nearly 80 items to decrease food and labor costs. It began purchasing ready-made items such as boiled eggs and guacamole to reduce labor. It also removed 27 slow-selling items that were expensive and labor intensive to produce. For example, Rising Roll got rid of the shrimp salad sandwich because it only sold well in the summer and had a short shelf life. It also removed the labor-intensive quesadilla. Employees had to come in early to prepare the ingredients and build the quesadillas. Those not sold were discarded.

By streamlining the menu to 50 items, Rising Roll removed 22 inventory items, reduced food costs by 6 percent and shaved off about eight hours of labor a week, according to Lassiter.

It also helped with franchisee training: "Bottom line, it's just a heck of a lot easier to learn 50 recipes than 80," he says.

Room for Improvement

Rising Roll streamlined the store design to reduce rental costs, better

market the products and maximize throughput after seeing inefficiencies in one of its two company stores, a 4,000-square-foot unit in Alpharetta, Ga. The company created a 2,400-square-foot prototype where customers see the menu board and deli cases from the entrance. The prototype maximizes seating by using two tops instead of four tops to accommodate its primarily business customers, who usually come in alone or in a party of two.

Rising Roll also hired a real-estate broker to help with site selection and negotiation, and set up franchisee advisory committees.

Since Rising Roll began franchising in 2003, 11 units have opened in Arizona, Florida, Georgia, North Carolina, South Carolina, Tennessee and Texas. It doesn't plan to open more company units. Instead it will help franchisees open 60 to 70 units in the West and Southwest over the next five years.

"Right now our total focus is franchisee profitability. So we're not looking at corporate stores," Lassiter says. "We don't want to lose focus on that franchisee profitability." ■

Rising Roll's 50-item menu includes the Chicken & Apples sandwich, chicken salad topped with blue-cheese dressing, smoked bacon and Granny Smith apples; and the Tucson Wrap, grilled chicken breast tossed with bacon, cheddar cheese, lettuce, tomato, almonds and ranch dressing in a sun-dried-tomato tortilla.

It costs about \$250,000 to \$350,000 to open a Rising Roll, which averages 2,400 square feet.

President Mike Lassiter has prepared Rising Roll Gourmet for franchising by analyzing and improving its menu, labor costs and prototype.

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UNITS

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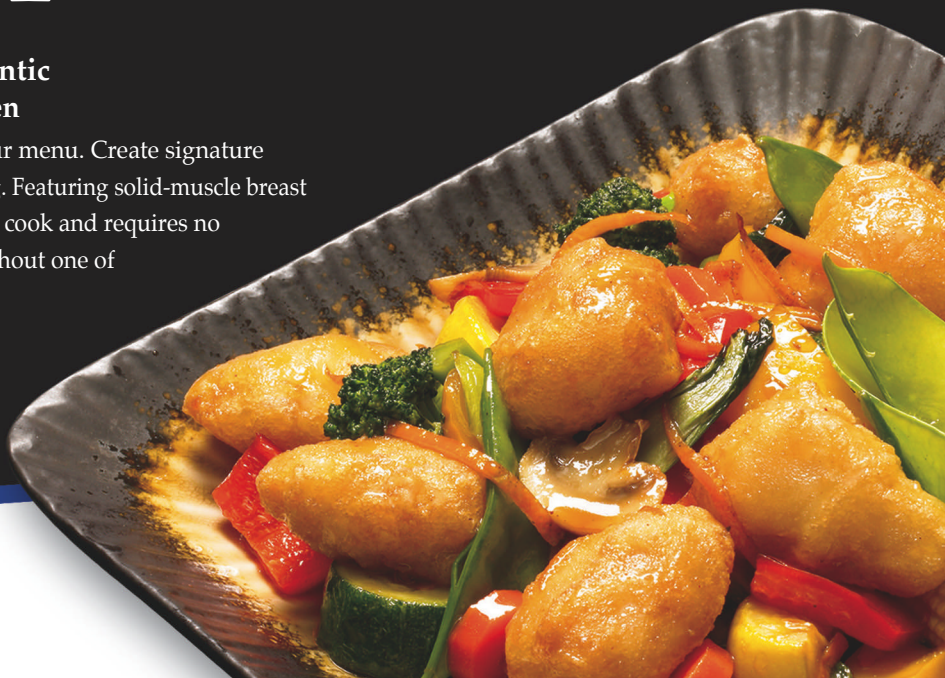
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Bridging the GENERATION Gap

Fifty-year-old **HONEYBAKED HAM** is using its cafe concept to expand its brand's demographic reach. **By Margaret Littman**

SNAPSHOT

Concept HoneyBaked Ham Co. and Cafe
Headquarters Atlanta
Units 108
2006 Systemwide Sales \$58 million
2007 Systemwide Sales \$70 million (company estimate)
Average Unit Volume \$650,000
Average Check \$8
Expansion Plans 200 units by 2010; 20 to 25 new units annually

In much of the country, the HoneyBaked ham is a classic, a 50-year-old tradition for holidays and special events. For the descendents of founder Harry J. Hoenselaar, that legacy is both a source of pride and a quandary.

While today's families may still appreciate HoneyBaked as the center of a Christmas or Easter dinner, they're less likely to have a ham-worthy, sit-down meal on an average weeknight than the previous generation. In response, the company developed a growth strategy—through both acquisition and franchising—that fuses the strengths of the traditional take-home brand with the more 21st-century approach to eating out.

Management launched HoneyBaked Ham Cafe in 1998 to widen the brand's awareness while still respecting its history. To celebrate its 50th anniversary and promote expansion of the cafe concept, HoneyBaked relaunched the cafe this year.

The cafes are sandwich shop meets retail

store, emphasizing "the heritage of the brand," says Director of Franchise Development Jim Squire. A wall of pictures illustrates HoneyBaked's history, showing how the brand became synonymous with ham and turkey for the holidays. The stores still offer to-go services for the meats, as well as specialty side dishes. But, in addition, the cafes offer to-go catering to local businesses and a menu of 17 made-to-order sandwiches in a space with lunch-time seating for at least 20.

The cafes are designed to compete with more traditional sandwich shops like Panera Bread, with wood floors, brick accents and a warm, open atmosphere, according to Squire. The 1,600-square-foot units are located in high-traffic retail centers such as endcaps in strip malls.

Casting a Wider Net

Historically the brand has appealed to 35- to 54-year-old women. "I think the cafe element has changed that. Now the



demographic is anybody who eats lunch or companies that bring lunch in," says Ken Caldwell, vice president of franchise for the Atlanta-based firm.

"The cafe gives them a lot more selling opportunities to expand from retail," agrees Darren Tristano, executive vice president at Technomic Inc., a Chicago-based foodservice consultancy. "But it is like a convenience store trying to sell sandwiches. It is a much different strategy."

Tristano says that in many cases brands expanding into the restaurant business can expect to attract younger customers by attracting them as part of the labor force.

But many franchisees, including Grady and Nancy Love, who own the Rock Hill, S.C., cafe, say they also have attracted older employees who like the grease-free aspect of this QSR and the store's reasonable hours: Monday to Saturday, 10 a.m. to 6 p.m.

Because HoneyBaked typically franchises only one store per market, the typical fran-

chisee is different than the multiunit franchisee other chains court. Squire says most franchisees are owner-operators who have been HoneyBaked customers and may have retired from a traditional corporate career.

In addition to attracting a new demographic, the expansion into cafes helps HoneyBaked weather increased competition on the specialty food side of the business including Internet and mail-order food clubs, Squire says.

Fragmented Family Tree

The brand itself has a complicated, decentralized ownership. When Hoenselaar died in 1974, he passed on his business to five family members, each of whom expanded the brand differently in different regions of the country. In some areas, including Georgia and the south, the owners were aggressive, acquiring competitors such as Hickory Baked Ham and Heavenly Ham, and exploring growth via franchising. Several years ago,

The HoneyBaked Ham Cafe is sandwich shop meets retail store, emphasizing the heritage of the 50-year-old brand.

The cafes offer to-go services for the meats and specialty side dishes.

HoneyBaked Ham Cafe's grease-free environment and limited operating hours have made the concept attractive to a diverse labor pool.

The cafes are designed to meet the concept's dual goals. Seating areas and counter service offer QSR-style options, while retail displays highlight take-home offerings.



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Warm woods and a warm color scheme help position HoneyBaked Ham Cafe as a competitor to traditional sandwich chains.

the family members who owned the Michigan- and Ohio-based territories banded together with the Georgia contingent to create one entity that would franchise HoneyBaked Ham Cafes in 39 states. HoneyBaked Ham retail stores in California and on the East Coast are separate entities and not part of the expanding cafe concept.

The franchise concept has 108 cafes in 25 states, with systemwide sales of \$58 million. The aim is to have 200 cafes in 39



The HoneyBaked Ham Cafes are designed to compete with more traditional sandwich shops like Panera Bread.

states by 2010. The firm is well on its way, with 21 new stores scheduled to open in 2007, including in Wausau, Wis., Newport News, Va., and Puyallup, Wash. Expansion will continue at a pace of 20 to 25 units annually in these smaller and midsized markets.

To build the cafe awareness, franchisees pay 2 percent of sales into an ad fund, which is used for seasonal promotions on radio and in print in local media.

Adds Squire: "Brand-wise we are really dedicated to having the very best ham you can get anywhere. We think we will see that translate to passing on the tradition to the younger generations today." ■

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INSIGHT FOR RESTAURANT EXECUTIVES



Exacting STANDARDS

Kona Grill's
ZACH BREDEMANN
standardizes recipes
and systems to
bring approachable
Pan-Asian fare to
the masses.

When Zach Bredemann signed on as Kona Grill's first corporate executive chef in 2004, the Scottsdale, Ariz.-based company had five restaurants and a lot of great recipes, but no consistency. "They knew they had to tighten up a lot of things if they were going to grow faster," says Bredemann.

Rolling up his shirt sleeves, Bredemann, formerly a culinary supervisor with Buca di Beppo for five years, spent two years tweaking and standardizing Kona Grill's recipes and systems. He scrutinized 55 menu items and 40-plus sauces, streamlining labor and enhancing training along the way.

With 16-unit Kona Grill now moving into

greater growth mode, opening five to six restaurants a year, the efforts are timely, says Matthew DiFrisco, vice president and restaurant industry analyst with New York-based Thomas Weisel Partners. "This is a step in the right direction," says DiFrisco. "With growth happening quickly, consistency is very important. Menu standardization and



A cheery new addition to the sushi menu, Kona Grill's Sunshine Roll combines spicy salmon with rice, cucumbers and seaweed on the inside and thin-sliced lemon and salmon on top.



codifying best practices should help reduce risk associated with new store development."

Bredemann and his right-hand man, Corporate Sushi Chef Takeshi Trinitapoli, are thrilled to see the newly honed menu taking off. Same-store sales were up 1.4 percent for the first quarter compared with the same period in 2006. Sales of enhanced items are improving. Five-Spice Baby Back Ribs, for example, which are being marinated and cooked longer at a lower temperature, are selling 4 percent better than they were before. New dishes such as the Diablo Shrimp appetizer, \$11.95 (spicy jumbo

shrimp with a blue-cheese dipping sauce), and the Lemongrass Crusted Halibut entree, \$20.25 (with coconut-curry sauce, white-cheddar mashed potatoes and sauteed baby bok choy), are filling in gaps. Food costs are down to 29 percent. And more enhancements are on the way.

Mass Appeal

Understanding Kona Grill's enhancements requires understanding the basic menu. Divided between eight categories at lunch and a slightly different eight at dinner, Kona Grill's Pacific Rim-inspired food is intentionally approachable. Best-selling entrees include the Macadamia Nut Chicken, \$16.25 at dinner, grilled chicken breast served with cream-enriched soy sauce, pineapple-papaya marmalade, white-cheddar mashed potatoes and wok-seared vegetables. There's also Big Island Meat Loaf, \$15.25, a mix of ground Angus beef and sweet Italian and andouille sausages baked and served with mushroom

SNAPSHOT

Concept Kona Grill
Headquarters Scottsdale, Ariz.
Units 16
2006 Systemwide Sales \$50.7 million
2007 Systemwide Sales \$73 million (company estimate)
Average Unit Volume \$5.4 million
Average Check \$22
Expansion Plans 2 by year-end

Streamlining operations, one saucier now does the 40-plus sauces for both the grill and sushi bar.

Kona Grill's best-selling entree is the Macadamia Nut Chicken, grilled chicken breast served with cream-enriched soy sauce, pineapple-papaya marmalade, white-cheddar mashed potatoes and wok-seared vegetables.

ragu, white-cheddar mashed potatoes and wok-seared vegetables.

Even the separate sushi menu, which represents 20 percent of Kona Grill's food sales, has been carefully shaped with American tastes and guest preferences in mind. Sushi rolls, for example, normally sliced into six pieces at most sushi bars, are sliced

into eight pieces at Kona Grill to make them easier to eat. "We've found that women frequently dictate the ordering process," says co-founder and Chief Operating Officer Jason Merritt. "And our female guests have indicated to us that easier-to-eat sushi is sushi they're more likely to order. Smaller pieces are easier to chew."

Likewise, you won't find traditional sushi ingredients like kohada (pickled gizzard shad) or natto (fermented soybean) on the menu, because they don't appeal to the majority or to sushi newbies, says Trinitapoli. "About 30 percent of our customers who order sushi tell us that Kona Grill is their first sushi experience," he says. "We try very hard to ensure that that first experience will be a positive one."

Earlier versions of Kona Grill "were more sushi-centric and more heavily Asian and Pacific Rim influenced," explains Merritt. "But people were intimidated by what they didn't know, so those concepts didn't have mass appeal."

Bredemann says the key at Kona Grill has been very fresh, basic ingredients with exotic accents. The chain uses fresh seafood shipped in daily from Hawaii for both the sushi bar and the many seafood entrees. Of these, Baked Sea Bass, \$21.95, marinated for 72 hours in a blend of sake and two varieties of miso, and served with shrimp and pork fried rice and Szechwan beans, is the best seller.

Flavorably Efficient

As with the seafood, exotic accents to meat dishes come in sauces and marinades. The barbecue sauce for the baby back ribs includes Chinese five-spice powder. The double-cut pork chop is sauced with hoisin. And the grilled chicken breast is glazed with sweet-chili sauce.

Standardizing recipes for these and other menu items, Bredemann looked for best flavor and efficiency. He balanced the quantities of fruit used in the pineapple-papaya marmalade that's part of Kona Grill's signature Macadamia Nut Chicken, for example. Then



he reduced waste by switching to single-lobe breast portions, rather than having chefs portion from double-lobe breasts.

Bredemann also improved the Szechwan bean recipe, which used to require deep-frying and saucing Chinese long beans. He now blanches regular green beans and tosses them in slightly less spicy, chili-paste-based Szechwan sauce. “The long beans were hard to source and not always the best quality,” he explains. “So there was a lot of waste involved.”

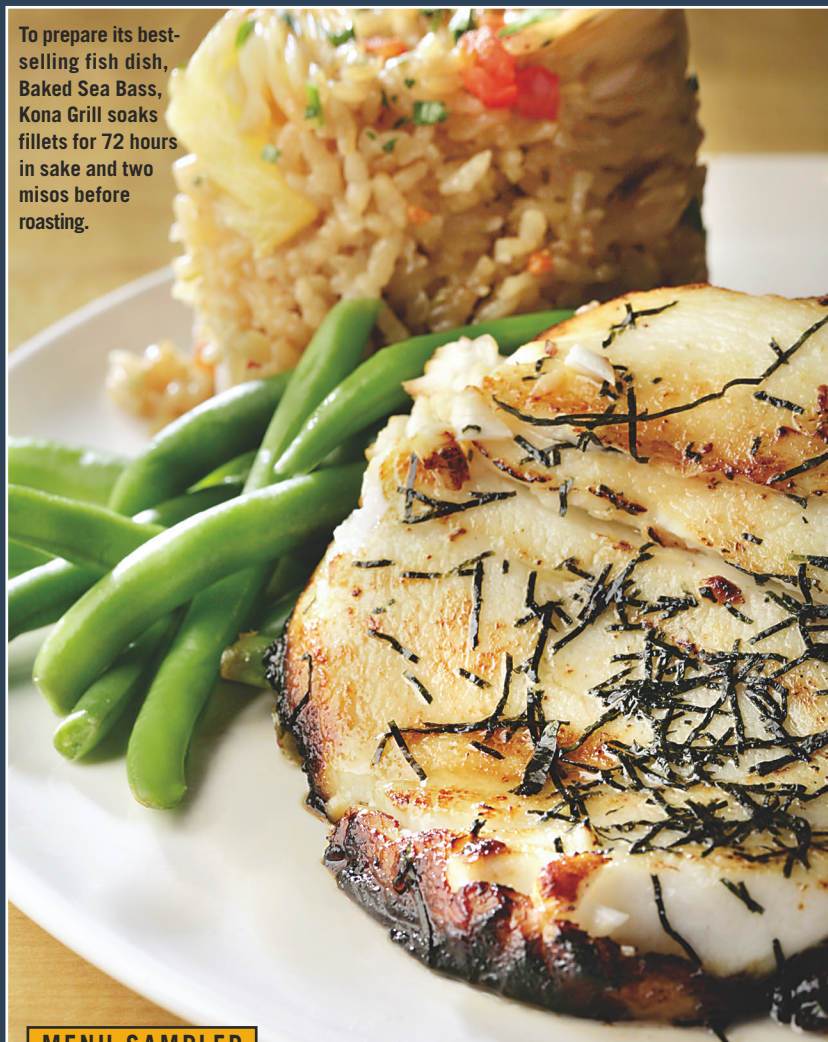
Beyond recipe efficiencies, Kona Grill streamlined kitchen procedures by changing the scope of the new saucier position last year. “It used to be sauces for the sushi bar and sauces for the grill were tasked separately,” says Bredemann. “With our most recent stores, we redid the saucier position so that one person is now making all of the sauces for both sides, which really helps bridge the gap between the two.”

Bredemann explains that Kona Grill makes more than 40 sauces in house and one or two are generally used in every dish. Shoyu cream sauce—a blend of soy sauce and heavy cream—is a guest favorite, as is the honey-cilantro dipping sauce accompanying the \$8.25 Avocado Egg Roll appetizer.

Bredemann has started shaping sauce recipes that can do double duty between the sushi bar and the grill. First out of the chute: The recipe for the spicy tuna sauce in the \$7.95 Tuna Wasabi appetizer was revamped last year so it would also work for spicy-tuna offerings on the sushi-bar menu. The Wave Roll, \$8.00, for example, has spicy tuna, tempura-battered fried shrimp, avocado and cucumber in soy paper. “We cut back on the mayo and increased the spice in the recipe,” says Bredemann. “This allowed the flavor of the tuna to come out more and made the dish a bit healthier.”

About 30 percent of customers ordering sushi say that Kona Grill is their first sushi experience.

To prepare its best-selling fish dish, Baked Sea Bass, Kona Grill soaks fillets for 72 hours in sake and two misos before roasting.



MENU SAMPLER

SUSHI

Sunshine Roll: spicy salmon with cucumbers wrapped with rice and seaweed, topped with fresh salmon and thinly sliced lemon, **\$11.50**

Seven-Spice Tuna Sashimi Salad, with cucumber, smelt roe and sprouts, topped with motoyaki sauce and ponzu sauce, **\$10.75**

APPETIZERS

Tuna Wasabi: spicy rare tuna and avocado wrapped in a flour tortilla, flash-fried and served with wasabi sour cream, pico de gallo, and shrimp and pork fried rice, **\$7.95**

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Sweet-Chili Glazed Salmon Salad, with field greens, somen noodles, cucumber, tomato and tofu, tossed with sesame-soy dressing and served in a crisp flour shell, **\$10.25**

SEAFOOD SPECIALTIES

Pan-Seared Ahi, with sauteed bok choy, steamed white rice and sweet-chili sauce, **\$17.95**

MEAT SPECIALTIES

Five-Spice Baby Back Ribs: pork ribs with spicy barbecue glaze, served with Szechwan beans and cabbage slaw, **\$21.75**

Kona Grill's key to mass-market appeal is using fresh basics, exotically accented.



Since shrimp was missing from the appetizer options, Kona Grill filled the gap with Diablo Shrimp, spicy fried and sauced shrimp with blue-cheese dipping sauce, which scored best in test tastings.

Best use for oddly shaped pieces of fresh ahi? Make Ahi Tuna Burgers of them. Kona Grill's are topped with avocado and basil-pesto aioli and served with a side of taro chips.



Filling the Gaps

Bredemann also added several new dishes in 2006 to fill gaps in the menu and make broader use of

underutilized items. One

of the most successful is the Ahi Tuna Burger, \$9.95, with avocado, basil-pesto aioli sauce and a side of taro chips. It uses fresh trim and odd-sized pieces of tuna not served as sushi, says Bredemann, and is one of the top two sandwich sellers.

To fill gaps in consistent execution, Bredemann has increased training on all levels. Traveling culinary training teams rotate throughout units biweekly to oversee operations. Monthly conference calls update chefs and general managers. And Bredemann meets annually with all executive chefs and sushi-bar managers to show new dishes, discuss what's coming and encourage interaction.

"A lot of the chefs know each other by name only," he says. "Getting them together, they're more willing to pick up the phone to exchange ideas."

Bredemann and Trinitapoli allow sushi-bar managers to run special sushi rolls (one special at a time). Some of these ideas have done so well locally that they've been added to the core menu. The new Spider Roll, \$11.75, deep-fried soft-shell crab layered with crab

mix, avocado and cucumber, wrapped in seaweed and soy paper, and served with eel sauce, originated with Sarah Shelton, sushi manager at the unit in Sugarland, Texas, a Houston suburb. "We had soft-shell crab one other place on the menu and were looking for a way to cross-merchandise it," says Trinitapoli. "The chef in Houston told me this was doing very well." Since adding it to the core menu, soft-shell crab sales have doubled systemwide.

"At some point, we'd like to allow the executive chefs to feature their own daily specials as well," says Bredemann. For now he wants to give everyone in the system the chance to become more familiar with the new specs for core menu items and new items coming down the pike.

Desserts, for example, which used to be outsourced, will soon be prepared in house. "Making those from scratch will add some challenge for the chefs," he says.

So will entering new markets. "Wherever we go that's new for Kona Grill, there's a learning curve for both the guests and the staff—especially with sushi," Bredemann says. He explains that first-time guests often don't understand that each sushi item is handcrafted and made to order. "They don't like to wait," says Bredemann. "Keeping ticket times down brings us full circle to training and standardization. For the time being, that's where our focus has to stay." ■

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SNAPSHOT

Company Focus Brands

Headquarters Atlanta

Concepts 569 Carvels,
691 Cinnabons,
385 Schlotzsky's,
157 Seattle's Best Coffee
(all international)

2007 Systemwide

Sales \$649 million*

Average Check

All concepts below \$10

Expansion Plans

420 in 2007, including
Moe's Southwest Grill

*Chain Leader estimate includes
pending Moe's acquisition

Research and
co-branding are
driving **CEO STEVE
ROMANIELLO'S**
strategy for Focus
Brands.

Clear FOCUS



CEO Steve Romaniello will co-brand Schlotzsky's Deli, a "center of the plate" concept Focus Brands acquired last year as a host for Carvel and Cinnabon.

Fast feeder or fast casual? The results of a brand-image study show that the sandwich chain has the decor of fast casual but the service attitude of fast food.

By David Farkas

Around noon on a recent day in Alpharetta, Ga., Focus Brands CEO Steve Romaniello's attention is drawn to a marker board above his head in the kitchen of a busy Schlotzsky's Deli. Someone has scrawled the eatery's budgeted vs. actual cost of goods and labor in blue ink for the previous week. The company restaurant was 9 percent over budget with prime costs (minus managers' salaries) of only 46 percent.

"Those are very strong numbers," says Romaniello, who's also president of Schlotzsky's. "Had I known they were there, I might not have shared them with you."

Not that Romaniello is being unduly modest in front of a visitor touring his company's stable of concepts (see "Brand Stable" on Page 33). It's that as franchisor of the 385-unit sandwich chain, which the Atlanta-based holding company acquired last November, he's careful about what he reveals lest franchisees believe they should be posting similar performances.

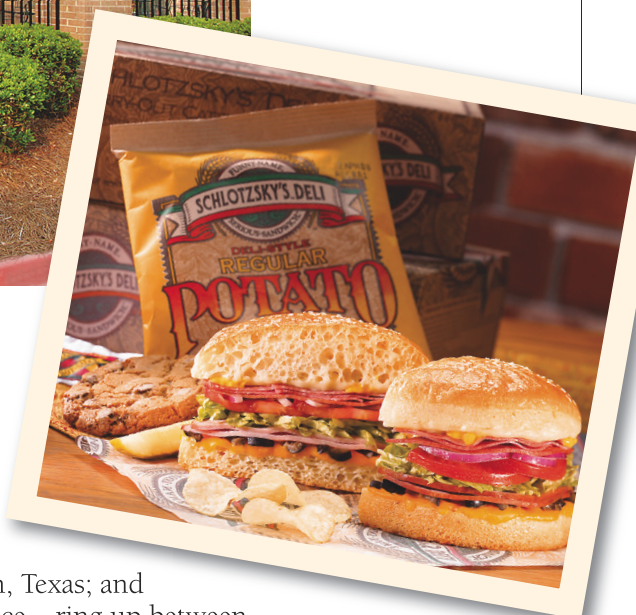
Most franchisees don't come close, par-

ticularly when it comes to annual sales volumes, according to Romaniello. Those outside of the Atlanta-based company's core markets—Dallas; Austin, Texas; and Topeka, Kan., for instance—ring up between \$600,000 and \$800,000. Although above the sandwich category average of about \$450,000, those volumes remain well below company stores, where sales reach \$1 million or more, he claims.

Working Together

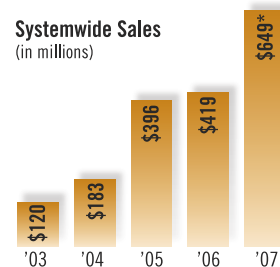
That could change as Schlotzsky's franchisees begin co-branding with Carvel Ice Cream and Cinnabon, two franchise systems Focus Brands purchased in 2002 and 2004, respectively. The company also picked up the international arm of Seattle's Best Coffee in the Cinnabon deal from former owner AFC Enterprises. This summer Focus Brands closes in on its latest acquisition, 345-unit Moe's Southwest Grill. More on Moe's in a moment.

"Franchisees are eager to [co-brand]," declares Roy C. Thomas, a 16-year Schlotzsky's franchisee and president of Schlotzsky's Franchisee Advisory Council, who will open the first co-branded unit in September, in

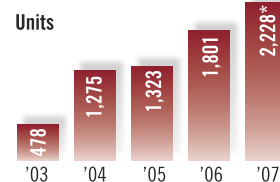


Focused Growth

Systemwide Sales
(in millions)



Units



*Chain Leader estimate
(includes Moe's acquisition)



Romaniello, 40, grew up in a small business family, from which his entrepreneurial tendencies stem, he claims. He started a beverage distribution business while at Tufts University in Boston and sold hotel franchises for commission only shortly after graduating.

Like other fast-casual players, Schlotzsky's Deli offers free wireless Internet access.



Midland, Texas. His co-branded restaurant—a new 3,800-square-foot Schlotzsky's—will feature both treat brands.

"We have to keep [Schlotzsky's] open from 10:30 in the morning to 10:30 at night, and this is the best answer we've ever had," he says. He predicts sales in the new unit will climb 20 percent because of the additional products, which are consumed at times other than lunch—Schlotzsky's biggest daypart. Carvel, however, is unknown in Texas, and Thomas is counting on Schlotzsky's reputation for what he describes as "premium quality" to provide a halo for it. Carvel, a legendary ice-cream shop on the East Coast and in south Florida, is all but unknown elsewhere in the country.

Likewise, Schlotzsky's reputation for high-quality food isn't a given in markets outside its home state of Texas. To figure out what

"Running a Schlotzsky's is not just about the money. There's a pride factor. [With Focus Brands] we have a definitive course."

—Schlotzsky's Deli franchisee Roy C. Thomas

customers think of Schlotzsky's, Romaniello commissioned a study to answer several burning questions about the brand image. "We have a little bit of an identity crisis, which we intend to figure out," he concedes.

One thing he wanted to know was whether to axe the word "deli" from the chain's name because it confuses customers. "We haven't finalized our recommendation on that," says Technomic Inc. Principal Melissa Wilson, who presented the results in early June and is also analyzing Schlotzsky's long menu. "There are some attributes of 'deli' that Schlotzsky's would get credit for, like made-to-order sandwiches. And there are some they wouldn't be identified with. For example, they don't sell cold cuts by the pound."

A Marriage Made in Atlanta

The research also turned up evidence that Schlotzsky's would make a good fit with the company's other brands. "Given that Schlotzsky's is perceived as more fast casual than fast food, there seems to be an opportunity. The key is to know how to integrate the daypart strategy and products," Wilson advises.

Romaniello, 40, has been learning as much as he can about daypart usage in co-branded restaurants. Carvel is already in 20 Schlotzsky's in Texas, as is Cinnabon. In San Diego, Carvel and Westbury, N.Y.-based hot-dog chain Nathan's Famous share space. Although the company hasn't reported any results, Carvel President Gary Bales says, "It's starting to look good for us."

Thomas, for his part, says co-branding is a "no-brainer" and maintains that Focus Brands is "doing everything they can to make franchisees' existence better."

The sentiment is hardly surprising. Schlotzsky's Deli, which once boasted 700 units, was founded by Don and Delores Dissman in 1971. Ten years later, the couple sold the chain to real-estate investor John Wooley



BRAND STABLE

CARVEL ICE CREAM

Acquired 2002

In charge Gary Bales, president

Units 569

2007 sales \$140 million

Initiatives nondairy Italian ice rollout; testing cookies and brownies; co-branding with Schlotzsky's Deli and Nathan's Famous; single-unit expansion in core markets only

CINNABON

Acquired 2004

In charge Geoff Hill, president

Units 69

2007 sales \$263 million

Initiatives designing 90-square-foot "micro-

bakery" to replace 1,000-square-foot mall footprints; elimination of trans fats; co-branding with Schlotzsky's Deli; rollout of hand-held products

SEATTLE'S BEST COFFEE

Acquired 2004

In charge Mike Shattuck, vice president, international operations

Units 157 (all outside the United States)

2007 sales not disclosed

Initiative developing new coffee recipes by region

SCHLOTZSKY'S

Acquired 2006

In charge Steve Romaniello, president

Units 385

2007 sales \$221 million

Initiatives catering; prototype launch, July '07; co-brand test with Cinnabon in Austin, Texas; formal site evaluation; menu analysis and brand study

MOE'S SOUTHWEST GRILL

Acquired expected to close August 2007

In charge to be announced

Units 345

2006 sales \$273 million

Initiatives formal site evaluation; repairing franchise relationships; resizing serving ladies and other smallwares

for \$3 million, who took it public in 1995 and grew the system to 759 units before profits disappeared and the company entered bankruptcy in '04. Bobby Cox, a Texas restaurateur and real-estate tycoon, bought the chain at auction for \$28.5 million in December '04. Franchise owners, enraged at Wooley, cheered the sale. Cox, who took Schlotzsky's private, beefed up marketing and opened company stores in Atlanta.

Romaniello, meanwhile, was looking for a "host" chain for Carvel and Cinnabon. He figured a sandwich shop with sufficient traffic fit the bill, because franchisees would likely embrace well-established brands (as would a franchisor) as a way to boost sales. What's more, sandwiches were perceived as fresh and, in some cases, healthful.

We Love Sandwiches

"There's a lot to love about the category, which is very fragmented except for a couple of players," Romaniello enthuses.

He initially approached Cox as a co-branding, but the more he looked into Schlotzsky's, the more he liked it. "What was left was a very stable system with a great deal of momentum," Romaniello recalls, citing same-stores sales above 10 percent.

Focus Brands, an affiliate of private-equity firm Roark Capital Group in Atlanta, acquired Schlotzsky's in November for an undisclosed sum. Romaniello and Roark Managing Partner Neal Aronson have worked together since 1995 when the two joined U.S. Franchise Systems, a hotel franchise company.

Interestingly, Roark had acquired another franchised sandwich chain in an auction, Ridgeland, Miss.-based McAlister's Deli, in 2005. The 235-unit operation remains outside of Focus Brands. "We had growth momentum, and during the auction process, our management made it clear we could deliver on our plans," says longtime McAlister's CEO Phil Friedman. "It was very important to me to be independent."

Neither Romaniello nor Friedman anticipates real-estate conflicts, which could hamper the growth of each system. Both

executives acknowledge the issue of who gets dibs on sites they both want hasn't come up. Friedman says there is no policy on how to resolve such a situation.

Schlotzsky's franchise owners were more concerned with shared data. They fretted Focus Brands would hand over sales information to McAlister's Deli given that Roark, in essence, owns both chains. "It's a logical conclusion, but it doesn't happen because we [Schlotzsky's and McAlister's] are separate companies," Romaniello insists.

Chasing Chipotle

Sharing competitive information isn't likely to be an issue with franchisees when it comes to Moe's Southwest Grill. That's because it's Focus Brands' first foray into the Mexican grill category. Much like sandwiches, the segment is dominated by one player, Chipotle, and otherwise fragmented into a dozen other players. Romaniello announced in April he was buying Moe's assets for an undisclosed sum from Atlanta-based Raving Brands. The sale, which involves the

High dairy prices are squeezing margins at Carvel Ice Cream. Franchise owners, who pay royalties on dairy mix they buy from Focus Brands, have been rolling out more nondairy items like flavored ices.



“After announcing the acquisition, I couldn’t walk down the hall without everyone saying to me, ‘Welcome to Moe’s!’” —*Focus Brands CEO Steve Romaniello*



Moe's Southwest Grill, Focus Brands' latest prize, has grown to 345 units in barely seven years, a testament to the fun, irreverent concept. CEO Steve Romaniello will work on mending relationships with franchisees, some of whom have filed lawsuits against former owner Raving Brands.

Cinnabon's future is the “micro-bakery,” an 80- to 140-square-foot outlet that Cinnabon President Geoff Hill says will produce similar volumes to the chain's larger 1,000-square-foot space.

transfer of some 40 people, is expected to close in August.

“The timing is perfect for this transaction,” says Raving Brands President and COO Stephen LaMastra, who approached Focus Brands last year with a deal in mind. “Moe’s needed a bigger platform to grow on.”

LaMastra, an attorney, may join Focus Brands as president of Moe’s, according to Aronson. “Steve is a terrific person and a really good leader,” says Aronson.

Romaniello believes Focus Brands’ resources can catapult the mostly franchised Moe’s into second place in the category. In November he reorganized Focus Brands into an infrastructure that features shared services such as finance, legal, IT, supply chain and human resources, and brand presidents who oversee operations, real estate, marketing and franchise sales.

Denver-based Chipotle, which rang up \$819.8 million last year, now gobbles up nearly 30 percent of a category worth about \$2.3 billion, according to Technomic Inc. Third place Moe’s, which rang up \$210 million in ’06, has about a 9 percent market share, trailing Baja Fresh (16 percent) and Taco Cabana (10 percent).

“This is a terrific category with enormous room for growth,” Romaniello says when asked why Focus Brands wanted a Mexican

chain in its stable.

“And we thought Moe’s occupied a unique and differentiated position.” He mentions research that shows the concept is fun and irreverent and capable of drawing families.

“My instincts tell me [Moe’s growth] is Eastern seaboard down to Florida and across the Southeast. But I’d rather let the brand study, consumer intercepts and real estate thing we do tell us specifically,” he adds.

Trouble Shooting

Still, Romaniello concedes there’s plenty of hard work to do, particularly on the franchisee front. Some franchise owners in Southern California blame Raving Brands for a lack of marketing support, which has led to the closing of several units, they argue. Others, in Georgia and Tennessee, have filed a lawsuit in a U.S. District Court in Atlanta alleging they were misled about how Raving Brands collected funds for charity, advertising and supply-chain distribution.

Two Georgia-based plaintiffs in that suit, who spoke on the condition of anonymity fearing reprisals from their current franchisor, declared they were happy with the sale, citing Focus Brands and Roark’s reputation of professionalism. Both franchisees, however, express disappointment that LaMastra might be appointed brand president of Moe’s. “That makes me feel uncomfortable,” says one.

Indeed, a franchisee named Charlie offers Romaniello a warm welcome to Moe’s in his unit near Focus Brands’ offices at the end of this visitor’s concept tour. The restaurant is an older model, and Romaniello seems reluctant to point out its flaws, maintaining criticism would not be fair because some of the problems here have been resolved in Moe’s new prototype.

Still, he can’t resist bringing up a few issues that trouble him. “Moe’s never had ladles that were properly sized so there was guessing going on, and there’s no one order-taking out on the line,” Romaniello explains. “There’s still a whole bunch of stuff that can be done.” ■

on the web: For more about Focus Brands’ plans for Moe’s, visit www.chainleader.com.

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LITTLE CAESARS offers franchise discounts and special help for veterans.

By Lisa Bertagnoli

Welcome HOME



In August, Patricia Evans will open a Little Caesars restaurant in Valdosta, Ga. Hers will look like any other Little Caesars restaurant, except for a wall plaque trumpeting Evans' four years of service in the U.S. Navy.

"I'm pretty proud of that," says Evans. Little Caesars is proud, too, not just of Evans, but of all U.S. military veterans. So proud that the Detroit-based chain has launched the U.S. Military Veterans Training Program, which offers special services and discounts to veterans who want to become Little Caesars franchisees.

Qualified veterans receive up to \$10,000 in credits on franchise fees, equipment and supplies. Service-disabled veterans are eligible for up to \$68,000 in credits.

Evans, who was not injured during her Navy tour, received a \$5,000 credit on her franchise fee and a \$5,000 credit on equipment from Little Caesars' equipment distributor. She, however, chose to manage her own financing. "I have my own goals and my own money," says Evans, who bought, operated and then sold a chicken farm after her military service but before signing on as a

Little Caesars franchisee.

Evans, with her mix of business and military experience, says that operating a Little Caesars store is the perfect career move. "There's no need for us to go in and reinvent the wheel," says Evans, whose two grown sons will help her run the restaurant. "Little Caesars has been around since 1959...they know what they're doing. It's a system that works, top to bottom."

A Win-Win Program

The program is "a great fit and a great win-win for Little Caesars and veterans," says David Scrivano, president of Little Caesars. "The military background is a good fit for team building, problem solving, leadership skills, and maybe most importantly, familiarity with systems, processes and structure," he says.

It's also generous, compared with other franchisors' veterans programs, says Kelsey Mortimer II, corporate liaison for the Center for Veteran Enterprises, a Washington, D.C.-based agency that assists franchisors in facilitating programs for veterans. "The amount is

SNAPSHOT

Company Little Caesar Enterprises

Headquarters Detroit

Units 2,300*

2006 Systemwide Sales \$1.15 billion*

Expansion Plans New units in Alaska, Hawaii, Texas, New Jersey, New York and the Carolinas in 2007

*Restaurants & Institutions' 2007 Top 400

Nine of 1,100 veteran applicants have been accepted to Little Caesars' franchisee program.

very substantial," Mortimer says. "Most give you a 5 percent discount."

The chain's generosity has made its program popular among the approximately 300 programs offered by other franchisors: Since its inception, about 1,100 veterans have applied to be Little Caesars franchisees. "That's pretty high," Mortimer says, attributing its popularity to the benefits, plus the fact that Little Caesars is "a brand name that everybody knows."

A Government Middleman

Little Caesars founder Michael Ilitch was inspired to create a franchise program for veterans in 2004, when he read a newspaper story about a soldier who lost his legs while fighting in Iraq. Ilitch contacted that soldier, Robbie Doughty, and offered him a franchised restaurant, which Doughty opened Feb. 1 in Paducah, Ky.

Ilitch then told Scrivano to devise a wider-reaching franchise program for veterans. "He said to me, 'David, we need to do more.... We need to be an example for those in the business community,'" Scrivano recalls. He adds that Ilitch also remembered his own discharge from the military, when "he was at a crossroads," Scrivano says. "He never forgot that feeling."

Little Caesars contacted several military organizations, among them the Center for Veteran Enterprises, to help publicize the program, which officially launched on Veterans Day of 2006. The Center for Veteran Enterprises screens applications from interested veterans and sends approved applications to Little Caesars.

Qualifications include an honorable discharge, plus \$50,000 in liquid assets, \$150,000 net worth and the ability to maintain a 51 percent ownership in the business. Veterans must also run the business on their own, but allowances are made for service-disabled veterans who cannot physically do all that's needed to run a pizza restaurant.

The center also makes sure that a pizza franchise is a wise career choice for veterans, says Mortimer, who attended a Little Caesars training session to get a first-hand feel for the business.

A Smooth Launch

So far, nine of the thousand-plus applicants have been approved and are going through the training program. Another 20 applications are pending, according to Scrivano. "The level of interest is beyond what we had anticipated," he says.

Once accepted, the veterans attend an intensive three-day training program "to make sure the program gets off on the right foot and that they're acclimated to Little Caesars' culture," Scrivano says. They also attend a six-week training program, as do all Little Caesars franchisees.

Existing franchisees, Scrivano says, are reacting well to the program. "They love it," he says. "Every franchisee, to a person, is appreciative that we're extending these benefits." The company has extended the benefits of the program to veterans who opened franchises before the program was launched.

The program will last through 2008, at which point the chain will review it and make improvements where necessary.

The launch went smoothly, Scrivano says, despite the fairly large number of parties involved, including several military-support organizations and various Little Caesars' suppliers. "It was quite an effort to bring it all together," he says, explaining that it took about a year to launch the program.

Evans agrees that the process went smoothly, praising Little Caesars' knowledgeable and helpful staff. "It's like it was meant to be," she says of the program. ■

Iraq war veteran Robbie Doughty (opposite) inspired Little Caesars founder Michael Ilitch to launch a franchise program for veterans. Ilitch gave Doughty a Little Caesars restaurant in Paducah, Ky., which opened Feb. 1.

A franchisee training session included (from l.) Little Caesars founder Michael Ilitch, Navy veteran Patricia Evans, Army veteran Vince Tripoli, Marine veteran Mark Molina and Michigan National Guard veteran Robert Jones.



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Long-Term PLANNING

Mr. Goodcents' new POS system enables faster ordering now, and gift cards and rewards programs in the future. **By Lisa Bertagnoli**

A growing chain can thrive using bare-bones technology for only so long. That's why Mr. Goodcents Subs & Pasta, the DeSoto, Kan.-based chain of 115 quick-service sandwich shops, has begun installing updated POS systems in its restaurants. The technology, dubbed Goodcents Information System, or GIS, includes touch screens to make order-taking faster and more accurate.

Franchisees say the touch-screen system is easier for employees to learn: "It's like playing a video game," says Mike O'Toole, a Tucson, Ariz.-based Mr. Goodcents operator.

It also is equipped with software that captures customer information such as names, addresses, birth dates and other special occasions. And soon Mr. Goodcents will use the new system to launch a customer rewards program and a gift-card program.

"It's an evolution of change," says Vice President of Operations Bob Moreno. "We made a decision a year-and-a-half ago to move into a more advanced phase of the system."

A Technological Evolution

Mr. Goodcents began its technological evolution two years ago, when it started replacing electronic cash registers at the stores with

the first iteration of GIS. It included the touch screens and software that tracked labor and food costs and helped franchisees with scheduling. Such software helps the chain keep labor costs at around 19 percent and food costs at or below 28.8 percent, according to Moreno.

The second generation, which began rolling through the system in February, is equipped with database technology that collects information on customers and their buying habits. The database will allow franchisees to send coupons and other offers to customers, initially via direct mail and later on, through e-mail. Moreno expected the database to hold 50,000 to 100,000 names by mid-spring.

About 20 percent of the restaurants are equipped with the second-generation technology; Moreno expects the rollout to be completed by the end of this year.

Installation and training are fairly simple, Moreno says. During installation, the electronic cash register is removed, and two touch-screen terminals are installed in its place. "It takes a couple of hours to link the systems and run the cables," he says. Franchisees take an online training class and can call a toll-free number for additional help.

"It's a very smooth transition," Moreno says of the implementation.

Mike O'Toole, who owns a Mr. Goodcents franchise in Tucson, Ariz., agrees, lauding in particular the system's touch-screen ordering process. "The old register, with the little buttons, wasn't user friendly," he says. But his employees quickly picked up the new system, with its bigger, color-coordinated buttons.

Since his store received the system about nine months ago, O'Toole says delivery has grown to 30 percent from 20 percent of sales. He attributes the growth to the new system. "Before, we hand-wrote everything," a process that led to mistakes and misunderstandings, he says.

Now, O'Toole says, "The order tickets are consistent. Every 'half Italian' looks like 'half Italian,' not 'half, what does that say?'"

Order-taking is also three to four minutes faster with the new system, O'Toole says.



The order-taking process is so much faster that now one person, instead of three people, can handle phone orders during the lunch rush.

Free to a Good Home

What did O'Toole pay for the system? Nothing. Moreno is so convinced that the new system will increase unit volumes and profitability that the corporation is picking up the tab for purchase and installation. The cost, Moreno says, ranges from \$500 to "a few thousand" per store, depending on whether the store has the updated GIS system and whether it needs one or two touch screens.

The technology "allows us as a system to make a huge impact with consumers," Moreno explains. If the system and its easy-ordering capabilities double catering and delivery sales, as Moreno expects them

SNAPSHOT

Concept Mr. Goodcents Subs & Pasta

Headquarters DeSoto, Kan.

Units 115

2006 Systemwide Sales \$55 million

2007 Systemwide Sales \$57 million*

Average Unit Volume About \$400,000

Average Check \$8.50

Expansion Plans 31 by year-end

*Chain Leader estimate

Mr. Goodcents hopes its new POS system will help double catering and delivery sales, which now account for 20 percent of business.



An upgraded ordering system will enable Mr. Goodcents to double its delivery business.



to, unit volumes, now at about \$400,000, will increase by 15 percent to 20 percent. Delivery now accounts for about 20 percent of sales systemwide.

Plus, the change is crucial for Mr. Goodcents' growth. "In order for us to grow the brand and build equity, we have to stay ahead of our competitors, and this is one way of doing it," Moreno says.

Plans for the Future

After franchisees are settled with the second-generation GIS, the company will launch the Mr. Goodcents Rewards Program. The program will use a magnetic-stripe card to store customer information; the card will be

Because the new POS system makes order-taking faster and more accurate, Mr. Goodcents expects unit volumes to increase by 15 percent to 20 percent.

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Mr. Goodcents is so convinced that the new POS system will increase profitability that the company is picking up the tab for purchase and installation.



A touch-screen ordering system is so fast that now Mr. Goodcents stores need only a single employee, not three, to handle phone orders during the lunch rush.

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loaded with points every time a customer visits a Mr. Goodcents location. The points will be redeemable for free food and other prizes, and will also entitle customers to a discount, free cookie or other to-be-determined gift on their birthdays.

Then the chain will implement the third phase: an electronic gift-card system to replace its paper gift-certificate system. "Those are concepts we're discussing right now," Moreno says.

The upgrade comes at a good time in Mr. Goodcents' life cycle, says Dennis Lombardi, executive vice president of foodservice strategy at WD Partners, a Columbus, Ohio-based restaurant design and consulting firm. Installing new technology is a facet of "the evolution of the brand," Lombardi says. Brands that have grown to 75 to 100 stores are well-advised to consider installing updated technology that captures customer information and allows for the launch of gift cards and rewards programs, he says.

And while those programs are important, "the real benefit is to read what's going on at the store level: menu items, the menu mix, changes to the menu mix when new items or limited-time offers come out," Lombardi says.

And the corporate investment is a wise one, provided that franchisees use the system to its full extent. "If you understand what a system can do, and use that to do something to decrease labor hours or build sales, the system pays for itself," Lombardi says. ■

on the web: Find out how Mr. Goodcents Subs & Pasta is using its new POS system to revamp and streamline its menu. Visit www.chainleader.com.

Franchise Developer

Handling a Health Crisis

From industry giants to regional players, no restaurant brand can count itself exempt from the threat of food-borne illnesses.

The need for speed in a foodborne illness outbreak is paramount. Begin an immediate investigation, but don't give up control, says Steven Fink, president of Los Angeles-based crisis management firm Lexicon Communications. "Let law enforcement or food-safety regulators do their jobs, but don't abdicate responsibility for managing your own crisis. But put a human face out there to keep consumers constantly informed," he advises. The object is to identify the source of the problem as quickly as possible, then communicate what the brand (or its individual units) is doing to address the current problem and prevent future incidents.

Major incidents should be handled by corporate. However, if corporate is mum, franchise developers may have to take the lead, says Fink. "Invite the media in. Tell them what you're doing in your units or region. Show them your food is safe," he advises.

That strategy helped Southern California chain Pat & Oscar's

recover from an E. coli outbreak, says Fink, whose firm was called in to take charge of crisis management and communications.

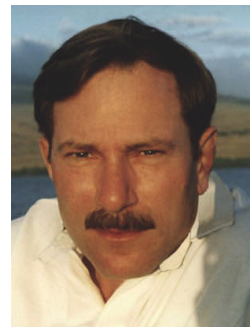
Within 24 hours, the chain launched its own investigation; identified the source of contamination as an outside supplier; announced it had replaced the supplier; instituted additional washing procedures for vegetables; and gave TV crews and reporters free rein to investigate and film both the front of the house and back of its restaurants.

P&O bought full-page ads offering free food for three days. The offer generated lines with two-hour waits, serving more than 55,000 people. Media coverage carried on for two days as entertainers were brought in to amuse the crowds and customers ordered anything on the menu for free. Sales figures began to rebound immediately and continued growing until they surpassed monthly averages prior to the outbreak.

For franchise developers, Fink says the first line of defense is the franchise contract. His recommendations include:

- Ask to see the corporate crisis-management plan.
- Evaluate what corporate will do to protect the brand and what it will to protect the franchisees' investment.
- Find out who takes control of the crisis, who may talk with the media and how corporate staff and franchise developers will cooperate.

Ask for a relief clause. If corporate management is slow to respond to a crisis, make sure you as the developer or a franchise association can take action without recrimination or violating your agreement.



Crisis management expert Steven Fink

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Gone FISHIN'

The rivers and streams of fly-fishing provide a refuge for Einstein Noah Restaurant Group's Paul Murphy. **By Maya Norris**

Catch and release: Paul Murphy, CEO of Einstein Noah Restaurant Group, usually throws back the trout he catches during his fly-fishing trips. "The number of trout have declined a little over the years as their environment has been impacted," he says. "So I'm just trying to make sure that there's fish there for my sons and hopefully their sons or daughters."

Paul Murphy has been hooked on fly-fishing for the more than 40 years. The CEO of Lakewood, Colo.-based Einstein Noah Restaurant Group, the parent company of Einstein Bros Bagels, Noah's Bagels and Manhattan Bagel, finds that fly-fishing lets him relax, spend time with his family and admire the natural scenery around him.

"Fly-fishing slows everything down," Murphy says. "It brings a certain amount of calmness."

A River Runs Through It

As a resident of Evergreen, Colo., Murphy doesn't have to travel far when he wants to go fly-fishing. Four or five times a year he drives to the South Platte River, North Platte River, the Colorado River and the Roaring Fork River, where he spends the day fly-fishing for a variety of trout. In the summer, he fishes in the evenings at a pond less than a mile from his home. His sons, Paul IV, 21; Clay, 19; and Parker, 16, sometimes join him.

Murphy's favorite place to fish is Missoula, Mont. He and some family members, including his sons; his father, Paul Jr.; and younger brother, Bill, spend three or

four days every year fishing the Blackfoot River for rainbow trout, brown trout, cutbos and bull trout. It's where Murphy caught his biggest fish to date: He landed a 29-inch bull trout three years ago.

The Blackfoot River and its surroundings have also proven to be a distraction at times. Five years ago Murphy missed catching a trout because he was admiring the Montana landscape. He doesn't remember how big it was but says he could tell it was a large fish based on its stripes. "It would have been the biggest fish of the trip," he says. "That's why they call it fishing, not catching. I think I was more part of the scenery than actually fishing at that moment. I still think about it."

But for Murphy, fishing is less about catching fish and more about rest and relaxation. He particularly enjoys this annual fly-fishing trip to Montana because of its remote location: He can spend time with his family without interruptions from the office.

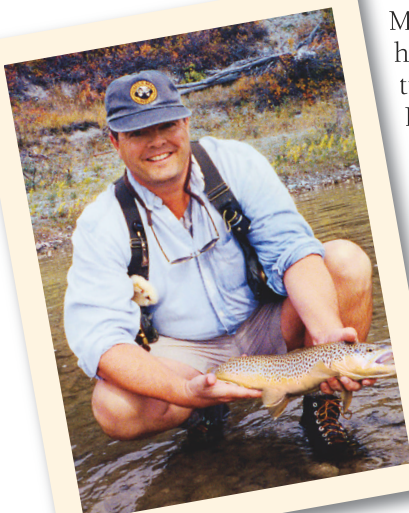
"That's why I love to go to Montana. My cell doesn't work, and I don't get anything on my BlackBerry," Murphy says. "So you have three or four days when you can recharge and just tell everybody, 'Hey, just deal with stuff, run the company. You know what, I'm just going to go up there and revitalize myself.'"

Passing the Torch

Murphy traces his passion to his father, an avid fly-fisherman who learned about the sport from his own father. He taught Murphy and his younger brother how to fly-fish when they were 7 years old and 5 years old. They had to practice casting for handkerchiefs in their backyard before their father let them fish in the rivers and streams near their home in McLean, Va.

Now Murphy gets to bond with his own sons over fly-fishing. While Parker and Clay fish with him occasionally, Murphy's oldest son, Paul, is the most enthusiastic about fly-fishing.

"My proudest accomplishment is that I've been able to pass it on to one of my sons—the love for it. Same thing my dad passed on to myself and my brother," Murphy says. "I've been fortunate that one of my sons enjoys it as much as I do." ■



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