Vol. 13, No. 8
August 2008

chain leader®

Reed Business Information.

TREND-FORWARD INSIGHTS TO BUILD BRANDS

Cross-utilize ingredients to save money. PAGE 29

Krystal's design is more than skin deep. PAGE 34

Prepare for, handle and learn from **food-safety crises**. PAGE 48

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top 50 chains under 50 units









Smaller chains use creative yet disciplined tactics to compete with national players.

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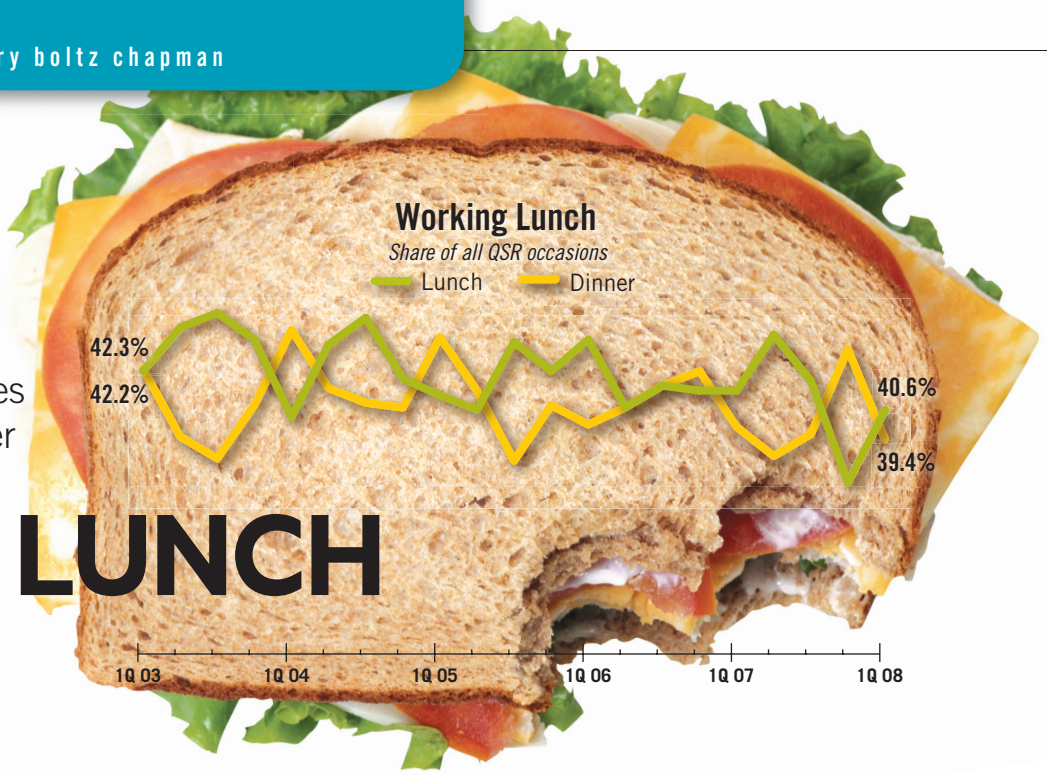
*Nielsen Data, Total U.S. Baked Beans

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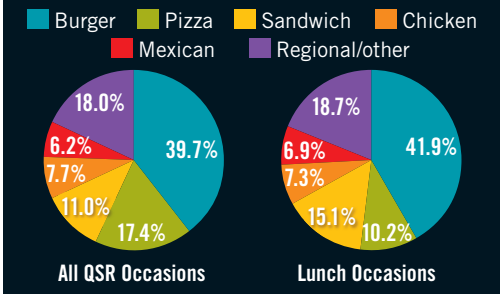
Fast-food operators fill more of their tables at lunch than at other dayparts.

Out to LUNCH



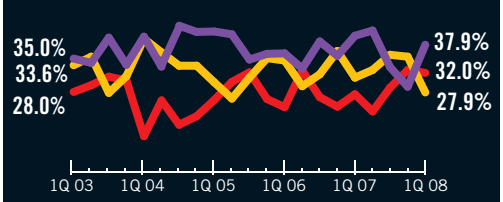
Stopping for Lunch

Share of past-month purchase occasions by chain type, 21-quarter average



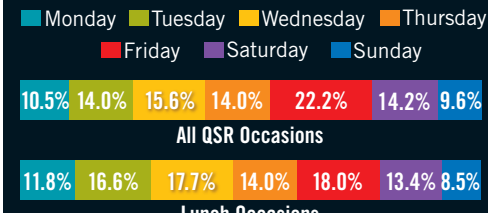
Take a Chair

All QSR users whose last purchase occasion was at lunch



Weekdays Strong Days

Day of week of last purchase occasion, 21-quarter average



You'll find more quick-service customers eating in the restaurant at lunch than at other meals. According to Quick-Track, a quarterly survey by San Clemente, Calif.-based research firm Sandelman & Associates, 36.8 percent of all fast-food users having lunch on their last QSR occasion ate inside the restaurant, while 27.5 percent of all QSR users ate in on their last visit, a 21-quarter average shows. Of those having lunch on their last visit, 32.8 percent used the drive-thru and 27.5 percent used carryout.

- Fast-food customers having lunch on their most recent occasion were more likely than all-occasion users to dine alone: 34.8 percent vs. 27.5 percent, according to a 21-quarter average.
- Lunch makes up 42.1 percent of all QSR occasions; dinner comprises 40.8 percent; breakfast, 11.3 percent; and snacks, 5.8 percent.
- Those having lunch on their last occasion spent $4.96 per person, a 21-quarter average shows. All QSR users spent an average of $5.09 per person across all meal occasions.
- Sandwich chains garnered 15.1 percent of past-month lunch occasions but only 11.0 percent of all past-month occasions. Conversely, pizza chains got 10.2 percent of past-month lunch occasions but 17.4 percent of all occasions.
- According to 21-quarter averages, 30.2 percent of fast-food users who had lunch on their last visit ate a burger; 25.2 percent ordered a sandwich, either chicken, submarine or other; 10.8 percent bought pizza; and 10.7 percent had chicken nuggets, strips, wings or on the bone.
- Of those having lunch on their most recent QSR occasion, 36.9 percent had fries vs. 28.9 percent of all users. 83.9 percent of customers had a beverage; 78.3 percent of all users did.
- 14.1 percent of QSR users having lunch on their most recent occasion used a special deal or promotion; 19.4 percent of all users took advantage of a deal. ■

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

ON THE WEB: For Traffic Trends data on other dayparts, visit ***www.chainleader.com.***

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40 COVER STORY

Small but Able

Casual-dining chains dominated *Chain Leader*'s first annual ranking of Top 50 Chains Under 50 Units. From fine-dining to budget-priced concepts, the emerging chains on this list are using various strategies to grow and leverage their brands. But what they have in common is the use of creative yet disciplined tactics to compete with large national players and deliver a dining experience that connects with customers.

By Maya Norris





22 STORYBOARD

Sticking to its Story

To better court its young demographic, Erbert & Gerbert's Subs & Clubs developed a stop-motion animation video that aired on late-night TV and YouTube. The offbeat ad tallied up 1.4 million views from September 2007 to mid-June 2008, while same-store sales increased 5 percent.

By Margaret Littman

25 IDEA TO ROLLOUT

Name Dropping

Saladworks' Signature Series features salads developed by celebrity chefs such as David Burke and Hope Cohen. The Conshohocken, Pa.-based chain credits the limited-time offers for boosting sales and traffic.

By Monica Rogers

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Double Duty

Chains such as First Watch and McCormick & Schmick's are focusing on cross-utilization and trimming SKUs to deal with rising commodity costs and slumping sales.

By David Farkas

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More than Skin Deep

Krystal's latest design is more than cosmetic. The new prototype features softer colors, architectural details, upscale finishes and marketing elements to improve the dine-in experience while building the QSR's brand awareness.

By Lisa Bertagnoli

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Good to Go

Cosi has instituted new support mechanisms for franchisees as they become a bigger part of the chain's growth strategy. It has hired new executives, created limited-time offers, redesigned the look of the stores and commissioned price-elasticity reports for each market.

By Lisa Bertagnoli





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Ready or Not

A crisis can hit even the best food-safety system. Chains can minimize the damage with a good crisis-management plan that includes putting together a cross-functional team and a communications protocol.

By Mary Boltz Chapman

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on the WEB

WEB EXCLUSIVES

- Trends driving growth at limited-service chains on our Top 50
- Denny Lynch shares lessons from Wendy's recent high-profile crises
- Several pockets of Atlanta are seeing a resurgence in growth
- Taco Bell's Tom Wagner discusses sales-building strategies in a down economy
- Cicely Simpson talks about tackling issues as director of government affairs for Dunkin' Brands
- Randy Murphy shares his plans for revitalizing Mama Fu's
- First Watch believes the time is ripe for franchising
- Samurai Sam's tests an Asian fusion concept

PODCASTS

- Phil Costner invests in new products at La Madeleine despite rising commodity costs
- Clarice Taylor maintains close ties with Papa Murphy's franchisees
- Matthew Dunn puts crab back in the spotlight at Joe's Crab Shack

HOW TO GROW TO 100 UNITS

- Harry Bond of Monical's Pizza offers tips for retaining managers
- Veteran operator Fred LeFranc's dos and don'ts for riding out an economic storm
- Aaron Allen of Quantified Marketing shares small-budget marketing tips

PLUS

- Industry blogs from chain veteran Lane Cardwell, upstart Vaughan Lazar and Senior Editor David Farkas
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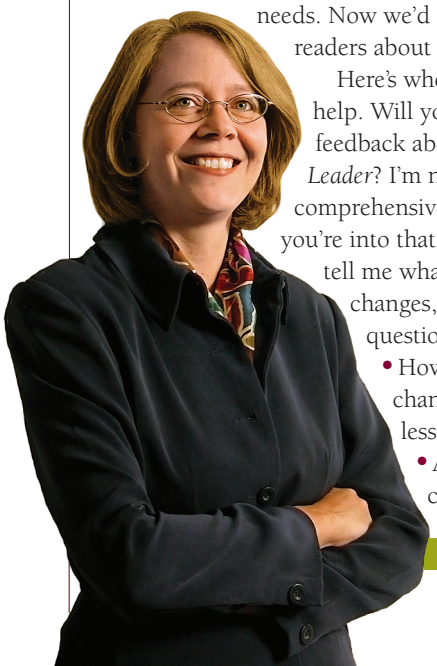
Every month I have to come up with some topic that I have an opinion on and figure out how to express it clearly in about 500 words. This page is always one of the last produced. I'm sure I'm not the only editor who procrastinates about it, because it isn't always easy. I had a reader tell me once that I hit the mark about 10 times a year. Well, this isn't going to be one of them, because I'm turning the tables and asking you to provide the commentary.

IT'S YOUR TURN

I'm sure you've seen the changes in the magazine since the beginning of the year.

We're planning story topics now for next year. Tell me what you want to read more about, what you've had enough of. Tell me how we can help you do your job better.

After comprehensive reader research, we changed the editorial position and redesigned the pages to better respond to reader needs. Now we'd like to hear from our readers about how we're doing.



Here's where we need your help. Will you send me some feedback about the new *Chain Leader*? I'm not looking for a big, comprehensive evaluation (unless you're into that kind of thing). Just tell me what you think about the changes, perhaps with these questions in mind:

- How has the position changed, and is it more or less helpful to you?
- Are the stories applicable to your job?
- Do you like the look and feel? Is it on trend? Is it helpful?
- Are there glaring omissions? Too much of something? What would you do different?
- What do you like and dislike about it?

Again, I don't want you to do any "heavy lifting." This isn't for publication or promotion (unless you're into that kind of thing). It's for me and the other editors to use to serve our customers the best we can.

I respect the opinion of all our readers: restaurant-chain operators, suppliers and other industry leaders. Any thoughts, perceptions or ideas would be appreciated. Please be honest and candid.

You can e-mail your comments directly to me at mchapman@reedbusiness.com, fax them to (630) 288-8215, or mail to 2000 Clearwater Drive, Oak Brook, IL 60523. If you're eager, call my direct line, (630) 288-8250. If you prefer to remain anonymous, you can use our online feedback form at chainleader.com.

A MULTIMEDIA EFFORT

Speaking of chainleader.com, we also relaunched our Web site this year. If you haven't been there lately, check it out. Besides the magazine content, we have Web-exclusive stories, podcasts and up-to-the-minute news. And you can share comments about a compelling series of blogs by Senior Editor David Farkas, CEO and co-founder Vaughan Lazar of green-minded upstart Pizza Fusion, and Brinker veteran and trend-spotter Lane Cardwell. I'd love to hear your opinions there, too.

We're planning next year's content now for all of our products. Tell me what you want to learn more about, what you've had enough of. Tell me how we can help you do your job better. ■

BIG ideas

"Feedback is the breakfast of champions."
—Ken Blanchard

"I'm vulnerable to criticism. Any artist is, because you work alone in your studio and, until recently, critics were the only way you'd get any feedback."
—British artist Howard Hodgkin

"If you don't get feedback from your performers and your audience, you're going to be working in a vacuum."
—Composer Peter M. Davies

"Either positive or negative comments are good because it shows I am still relevant."
—American Idol *runner-up Justin Guarini*

"Negative feedback is better than none. I would rather have a man hate me than overlook me. As long as he hates me, I make a difference."
—Author Hugh Prather



Mary Boltz Chapman
Editor-in-Chief

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How a pre-prepared and well-worded purchase agreement can give you the upper hand.

In Your **BEST** Interest

A purchase agreement isn't the sexiest part of a deal, but it remains vital, contends mergers and acquisitions specialist Mark Kaufman, whose Atlanta-based law firm, Sutherland, has worked on many restaurant acquisitions, including the sale of RTM Restaurant Group, Arby's largest franchisee, to Triarc. He explains why having a purchase-agreement form at the ready gives buyers and sellers tactical advantages.

Why wouldn't a buyer or seller have a boiler-plate purchase-agreement form in hand?
A buyer or seller might not have one, or a good one, because they have not done a deal before or recently. Or they may have used different lawyers in different firms or different inside counsel who used different forms of agreement.

What are you suggesting?
We're suggesting that sellers and buyers take time in advance of any actual deal to prepare a standard form agreement ready to submit to the other side right away or at least after a quick tuneup to fit the particular deal.

What gives a purchase agreement its tactical advantage?
Unlike public deals, where there are no surviving representations and warranties, almost every private deal has some representations [statements about the current status of the business] and warranties [guarantees to back up those statements] surviving. If you are a buyer, you want to have a lot of representations and warranties, and you want them to survive as long as possible, with a lot of indemnity to back them up [meaning the seller would compensate the buyer should something go wrong].

And if you are the seller?
If you are the seller, you want the agreement slanted your way: fewer representations and warranties, shorter survival and more limited indemnity. You sometimes find purchasers saying to sellers at the beginning of a deal, "We will get our lawyers to pull something together and get you a draft agreement in a week or two (or some other long period of time)." If you're the seller, you can say, "We've got one already. Let's start with ours."

What objections can the seller expect after making such a suggestion?
The purchaser may say, "We will be glad to look at your draft, but we want to start with ours." However, even if the purchaser takes this position, in the interest of getting a deal done and generating goodwill, it will likely tell its lawyers to look at the seller's draft and try to incorporate some of the concepts of the seller's draft. So the seller will have gotten a chance to shape the purchaser's draft before negotiations have begun.

Are some buyers and sellers tempted to really tilt the purchase agreement their way?
There are two theories on this. One is, give the other side a relatively balanced purchase agreement. If it looks fair, the other party is likely to be more willing to accept it without protracted negotiations. The other is, let's give the other side a very one-sided agreement, since if the other side has to negotiate from a disadvantageous starting point, we are more likely to end up with an agreement closer to the terms we want. I personally believe that, in most cases, starting with a relatively balanced agreement works better.

Why?
It gets the deal signed faster, promotes goodwill and generally eliminates the other side responding in kind. ■



"Buyers and sellers can gain a tactical advantage by having a suitable purchase-agreement form ready."
—Mark Kaufman

IN THE WORKS: With more data available online, Kaufman expects more agreements to be balanced.

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SOL Food

Baja Sol broadens its menu to compete and grow in the crowded Mexican category.

Baja Sol Restaurants Group is well aware of how competitive the Mexican segment is. But the Inver Grove Heights, Minn.-based company says its interpretation of Mexican fare will help the Baja Sol brand stand out and position it for nationwide expansion.

President Bridget Sutton, CEO Tony Sutton and Director Bill Cooper created Baja Sol Restaurants Group when it bought the Baja Sol Tortilla Grill brand in 2006 for an undisclosed amount. As franchisees of two units in Minnesota, the Suttons were already familiar with the then-six-unit fast-casual concept. But to create a chain with national potential, the company decided to reinvent the brand.



It costs about $250,000 to $400,000 to open a Baja Sol Tortilla Grill, which averages 2,500 square feet and 80 seats.

The complimentary salsa bar features eight core salsas and one seasonal salsa such as this summer's grilled pineapple salsa.

SNAPSHOT

Company Baja Sol Restaurants Group
Headquarters Inver Grove Heights, Minn.
Units 10 Baja Sol Tortilla Grills, 1 Baja Joe's Beachfront Grill, 1 Baja Sol Cantina
2007 Systemwide Sales $8.7 million*
2008 Systemwide Sales $17 million*
Average Unit Volume $850,000 Tortilla Grill (company units), $1.6 million Cantina
Average Check $8 Tortilla Grill, $14.30 Cantina
Expansion Plans 5 Tortilla Grills and 3 Cantinas by year-end, 8 Tortilla Grills in 2009

**Chain Leader* estimate

BEYOND MEXICAN

It hired Corporate Chef Bill Roche to expand the menu beyond the usual burritos, quesadillas and nachos. Roche, who has worked as a regional chef at The Cheesecake Factory and as a corporate chef for Lettuce Entertain You Enterprises, broadened the menu's flavor profiles to include Pan-Latin and Caribbean flare.

"Consumers understand Mexican food now," says Bridget Sutton. "They understand what Taco Bell is. They understand what Chipotle is. They understand what a burrito is. And now they're looking for something new, something interesting, something different. And that's what we offer because we provide menu items that most other concepts don't."

For example, the BBQ Burrito, $5.99, features jerk-style barbecue sauce. Customers have the option of ordering their burritos four ways including smothered-style, $1.49 extra, topped with pork-green-chile sauce rooted in South American cuisine. The complimentary chips and salsa bar has nine salsas ranging from the traditional pico de gallo to the unconventional peach-mango salsa.

BUILDING SALES

To further differentiate itself and drive sales, Baja Sol is testing alcohol such as beers and margaritas at a unit that opened in Columbus, Ohio, in June.

Baja Sol has found success with a catering and delivery program. Because it was cost-prohibitive to set up an in-house delivery program, it uses a local courier service. Since rolling out the program in February, catering sales have increased 47 percent.

The company has also been able to increase sales of items with steak, carnitas and shrimp despite price increases. In March it began a tiered pricing structure, charging an extra 30 cents to 45 cents for steak and carnitas and an extra $1 to $1.50 for shrimp. Sutton believes customers are willing to take the increase because the menu board emphasizes the pricing structure and quality of the items with descriptions such as Gulf shrimp and USDA sirloin steak. In addition to sales of those proteins going up, food costs went down 1.5 percent, to 27.5 percent.

GROWING UP

This year a franchisee opened the unit in Columbus, the first outside of Minnesota. Franchisees will open five more this year and eight in 2009 in Minnesota, Illinois, Ohio and California.

Although Baja Sol Tortilla Grill is the main growth vehicle, the company developed a full-service version of the concept called Baja Sol Cantina in April 2007 in Inver Grove Heights. A franchisee in Ohio will convert three Don Pablo's units into Cantinas by year-end. The company also developed Baja Joe's Beachfront Grill, a fast-casual concept that features Mexican and American fare, in 2006 in St. Cloud, Minn., but does not actively franchise it.

Baja Sol expects 100 units of the Grills and Cantinas to be operating within five years. ■

IN THE WORKS: When Baja Sol enters new markets this year, it will use a combination of viral marketing, direct mail and grassroots marketing.

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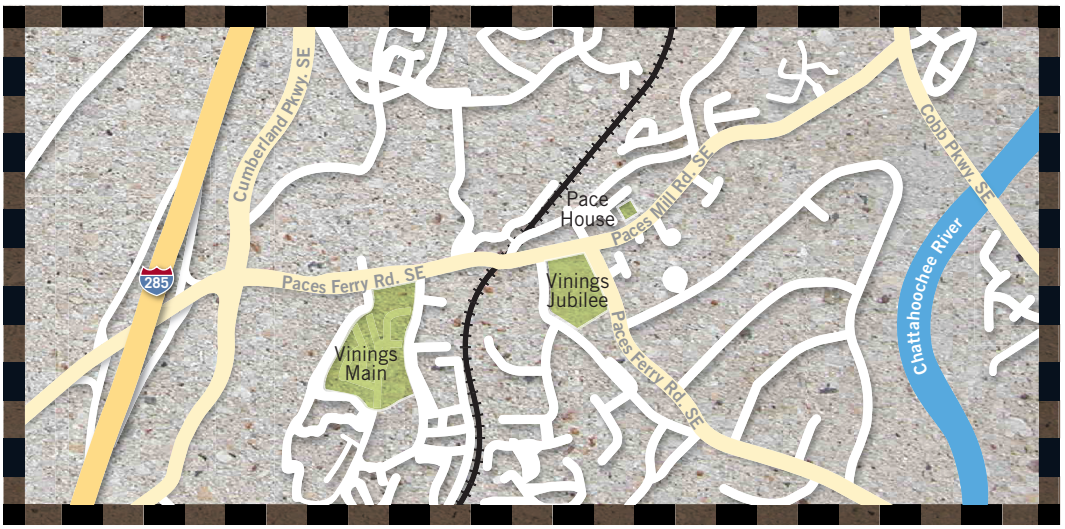
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Redefining VININGS

The tiny Atlanta neighborhood unofficially expands as developers and others hop on its trendy bandwagon.

Ask Atlantans which neighborhood is the hottest in town and Vinings might well be the answer. The area, northwest of Atlanta's downtown, is filled with historic buildings, including Pace House, which served as headquarters for Gen. William Tecumseh Sherman in July of 1865.

Vinings' residents are young, hip singles and older empty nesters with plenty of disposable income, who have settled in Vinings due to its relatively affordable real estate and proximity to downtown.

Numbers back up why many are moving to Vinings. Last year Vinings' housing prices jumped approximately 57 percent and home sales rose by 21.5 percent, according to SmartNumbers, an Atlanta-based real-estate research company. That makes Vinings' ZIP code, 30339, one of a few in the country not affected by the current housing slump.

TOO SMALL TO GROW

Given its boomtown status, one would think Vinings is ripe for new developments. And it is, depending on one's definition of Vinings.

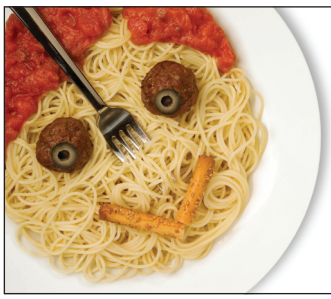
Vinings proper is a tiny area where boundaries are clearly defined. Anything west of I-285 is not Vinings, and longtime residents claim that even anything west of the CSX railroad tracks is not Vinings.

It's small and congested. Vinings Jubilee is the only development in the town. The tiny restaurant-retail complex holds several chain restaurants, including a Mellow Mushroom Pizza

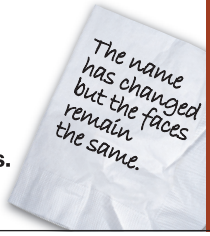
from the street

AREA Vinings (ZIP code 30339) in Atlanta
POPULATION 16,975
AVERAGE AGE 29.6 years
HOUSEHOLD INCOME $59,469
AVERAGE HOME VALUE $469,922
COMMERCIAL RENTS Upper $20s to low $30s per square foot annually
NOTABLE DEVELOPMENTS Vinings Jubilee, a small, upscale retail-restaurant development; Vinings Main, a 197,000-square-foot retail, condo and office development; Ivy Walk, a smaller collection of townhouses and condos with retail and restaurants.
OPERATOR PERSPECTIVE Fifth Group Restaurants, an Atlanta-based concept creator with five locations, chose Vinings for its second South City Kitchen, which opened in February 2005 at Ivy Walk, just outside Vinings proper. The 230-seat dinner-only restaurant is doing well, says partner Robby Kukler. "It's definitely a neighborhood place," he says. Kukler sees room for more upscale-casual restaurants in the area as residents tire of driving to dinner, especially in congested Atlanta.

ON THE WEB: Hotlanta, anyone? Several pockets of the South's biggest city are seeing a resurgence in growth. Visit ***www.chainleader.com.***



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Vinings residents, who are young singles and older empty nesters with plenty of disposable income, prefer restaurants with an independent vibe.



The Grape, a chain of 18 wine bistros, has a location in Vinings Jubilee, the only retail-restaurant development in historic Vinings.

and The Grape, an 18-unit wine bistro headquartered in Atlanta.

"There are more negatives than positives for a chain opening in Vinings," says Nitesh Sapra, development manager at Wood Partners, the Marietta, Ga.-based firm behind Vinings Main, a retail-restaurant-residential development located just outside Vinings proper. Parking is scarce, and residents prefer independent or independent-feeling restaurants, Sapra says.

PUSHING THE BOUNDARIES

To benefit from Vinings' popularity, developers are simply building outside the boundaries and using the name anyway. Vinings Main, a 197,000-square-foot condo, office and retail development that opened this summer, is one example: It is located west of the track, though east of I-285. Ivy Walk, another residential-retail development, is also outside Vinings, on the west side of I-285.

Other developers have attached Smyrna, a suburb adjacent to Vinings, to the area and have dubbed the concoction "Sminings."

Atlanta-based Focus Brands operates five restaurants in Sminings, including two Moe's Southwest Grills, a Carvel, a Cinnabon and a Schlotzsky's. All are performing well and benefit from the area's mix of residential and business traffic, says Mark Whittle, vice president of real estate at Focus Brands.

The Grape chose Vinings for its inaugural location back in 2000. The 1,800-square-foot, 75-seat restaurant just added lunch to meet popular demand, says Jeff Pendleton, vice president and director of operations.

Pendleton sees room for more chains, as long as the vibe is right. "You have educated diners here who are looking for an experience," he says. "Whether it's a mom-and-pop or a national interest, it has to deliver a total experience." ■

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"The Human Flipbook" *Length: 30 seconds*



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STICKING to its Story

Erbert & Gerbert's new **OFFBEAT AD** stays true to the brand's quirkiness while demonstrating the power of the Internet.

Since its founding 20 years ago, Erbert & Gerbert's Subs & Clubs has been about the storytelling almost as much as it has been about the sandwiches. The chain's menu items have names that tie in with stories the founder was told as a child, and staff is trained to keep those legends fresh.

As Erbert & Gerbert's looked for ways to differentiate itself in a competitive category and position itself for growth outside of its current Midwestern and Western markets, sticking to its story premise seemed like the wise strategy. Last year the company redesigned units and increased the number of franchisees. And with a little extra money left in its budget, management intended to create a modest radio spot to help underscore those efforts. The idea was to help the company stay rooted in its quirky heritage and stay within its modest budget, but position it for growth.

"We needed to help them find their voice," explains Dustin Black, art director at Minneapolis-based Colle + McVoy, Erbert & Gerbert's ad agency.

Instead of radio, Colle + McVoy suggested that a stop-motion animation video would play better with the 16- to 35-year-old demographic Erbert & Gerbert courts. The agency recommended airing it on Internet sites like YouTube, as well as on late-night TV, which is a natural fit, because many of Erbert & Gerbert's locations near college campuses are open until 2 a.m.

Colle + McVoy created "The Human Flipbook," a story told, without words, on a T-shirt. Like old-fashioned flipbooks that show motion when pages change quickly, the video tells the tale of a hungry boy in search of a good sandwich, as a torso changes T-shirts. The story is satisfying and gets its point across without the classic beauty shot of a sandwich.

CATCHING THE VIRAL WAVE

The 42-year-old president and CEO of the chain, Eric Wolfe, admits he didn't really "get" the idea of viral marketing when it was first presented to him. "I was looking for the food shot," he says.

But Wolfe was converted after seeing the results. The Human Flipbook spot aired late night on MTV and Comedy Central and was posted on YouTube in September 2007, when almost immediately it racked up thousands of comments from viewers. Watching the video lead some viewers overseas to long for an Erbert & Gerbert's, while locals said they were running out to get a sandwich. And, of course, the



5.



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cost-effectiveness stayed within the company's modest budget.

The Human Flipbook tallied up 1.4 million views from mid-September 2007 to mid-June 2008 and same-store sales increased 5 percent.

"YouTube is this great equalizer. You do not need a great media buy for a good impression," says John Krings, Erbert & Gerbert's COO.

The advertising team experienced the effects of that equality. In order to keep costs low, it actually ironed 150 decals onto 150 T-shirts and filmed an intern wearing each of the shirts in sequence over a period of 9 hours, one of the ways Erbert & Gerbert's managed to have such success with an annual ad budget of $500,000.

The team then created a "making of" video to show how it was done, which is also posted on the Human Flipbook site. That extra footage has garnered even more online traffic. "We wanted to slice and dice the material to get as many miles out of it as possible," Krings says. "We didn't want people to think that this was faked or that it could have been Photoshopped."

While conventional wisdom may shun an Internet effort for a chain with a limited geographic reach, Black says it is an advantage to get national—and international—exposure. "It sows the seed for new, fresh markets," he says. "Someone in Minnesota sees it and feels part of something much larger."

Currently Erbert & Gerbert has 45 units, with 17 in development. Expansion plans call for two or three units to open in 2008, and for new growth to come from franchising.

CELEBRATING SUCCESS

To sustain that kind of growth, though, and to honor a milestone, the chain needed a bigger bang…literally. When Erbert & Gerbert started planning its 20th anniversary, it wanted to build on the success of the Human Flipbook and the success of its first two decades.

"We were on the heels of the Flipbook, and so we decided to take the same quirky, wholesome approach, the same good tools, to create something fresh," Black says.

Instead of sticking with the typical customer appreciation day, Colle + McVoy created "Candle Cannon," which, as its name suggests, shows a series of different experiments using a giant cannon to blow out birthday candles, some from distances of up to 180 feet. As became the case with Human Flipbook, the team created a dedicated Web site for the birthday promotion (candlecannon.com), which includes a "making of" video and coupons for a free soda at the restaurant. A smaller 3-foot cannon was made available to franchisees who wanted to do their own off-beat celebrations.

The site had attracted 972,000 total views as of press time (from March 2008 to mid-June 2008), and between 5,000 and 6,000 consumers had downloaded coupons.

In addition to boosting sales, Erbert & Gerbert Marketing Manager Veronica Miller-Deutsch says the marketing effort boosted morale: "It motivated every team member. The hourly staff could now see the place they work in the Internet."

Erbert & Gerbert management is delighted that their offbeat approach has been a success and thinks the results demonstrate how the chain is "never quirky for quirky's sake," but is when it hammers home the mission and messages of the concept.

Krings adds that the chain has legitimate reasons for trying something different: "I think one thing we have learned in our collective experience is that if you create communications that look like what the leaders are doing, you are helping them out. If people see a sub, they think, 'I want to go to Subway.' That is the danger." ■

SNAPSHOT

Concept Erbert & Gerbert's Subs & Clubs
Headquarters Eau Claire, Wis.
Units 45
2007 Systemwide Sales $22 million
2008 Systemwide Sales $24 million (company estimate)
Average Unit Volume $515,000
Average Check $7.50
Ad Agency Colle + McVoy, Minneapolis
Ad Budget $556,000
Expansion Plans 2 or 3 in 2008

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— Michael Manzo, COO of Jersey Mike's

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Pictured left to right: Jim Van Nostrand, Franchisee, Susan Kelly, Executive Director of The Foodbank of Monmouth and Ocean Counties, NJ, Ken Bullivant, Franchisee, Michael Manzo, COO of Jersey Mike's.

Name DROPPING

Saladworks brings in **BIG-NAME CHEFS** to sell more salads.

David Burke, the celebrity chef who gave America pastrami salmon and a growing restaurant empire, is the latest celebrity chef to toss a salad into Saladworks' Signature Series. The lineup stars salads developed by renowned chefs for the Conshohocken, Pa.-based chain.

In July Saladworks launched Burke's Chicken Asparagusto Salad, $8.79. The limited-time offer is a mix of grilled chicken, asparagus, cucumbers, sweet peppers and almonds on a bed of iceberg and romaine lettuce topped with Caesar dressing.

Burke says he chose the ingredients because they "really balance each other out, sweet and salty, crisp and crunchy, and a lot of flavor." The Market Salad at Burke's davidburke & donatella restaurant served as his inspiration. With chicken, walnuts, goat cheese, tomatoes and walnut vinaigrette, the Market Salad has a similar consistency and flavor profile, Burke says.

Chicken Asparagusto will be featured in Saladworks 96 stores until October, when the fourth yet-to-be determined Signature Series salad for 2008 debuts.

SNAPSHOT

Concept Saladworks, LLC
Headquarters Conshohocken, Pa.
Units 96
2007 Systemwide Sales $60 million
2008 Systemwide Sales $68.7 million (company estimate)
Average Unit Volume Mall: $753,276; Strip Center: $786,342; Pad Site: $1,100,526
Average Check $10.62
Expansion Plans 20 by year-end 2008, 100 in 2009



Celebrity chef David Burke created the Chicken Asparagusto Salad for Saladworks' 2008 Signature Series collection.

Saladworks credits its Signature Series salads, which are created by celebrity chefs, for boosting same-store sales and traffic.



Hope Cohen, host of "The Chef's Kitchen," developed the Avocadolicious Salad, which included avocado, Mandarin oranges and spring mix with a lemon-dill vinaigrette, as Saladworks' second-quarter LTO.

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FROM FIG TO FAME

Saladworks launched the Signature Series in January. The idea was borne out of a celebrity chef competition Saladworks hosted in May 2007. The company offered the winning salad from that event—Castilian Fig Salad with spinach, figs, blue cheese, red onion, bacon, candied almond and prosciutto by Philadelphia chef Tim Spinner of Amada restaurant—as an $8.99 seasonal special from Aug. 1-Oct. 31, 2007. "Comparative-store growth more than tripled in the nine weeks following the launch of that salad," says Patrick Pantano, public relations supervisor, prompting the company to create a branded series out of the idea.

Jim Coleman, host of the "Flavors of America" cooking show on The Comcast Network, created the Wild Alaskan Grilled Salmon Salad for the first quarter. Priced at $9.29, the chilled salmon salad included mixed greens with grape tomatoes, dried cranberries, walnuts, a spicy pepper-cucumber slaw garnish and raspberry-maple vinaigrette. The salad upped sales 10.8 percent and traffic 9 percent, compared with the month previous to launch.

In the second quarter, Saladworks featured the Avocadolicious Salad from Hope Cohen, host of "The Chef's Kitchen," also on The Comcast Network, from April to July. The $8.49 salad had avocado, Mandarin oranges, hearts of palm, grape tomatoes, cucumbers, black olives, garbanzo beans and spring mix with lemon-dill vinaigrette. It increased sales 4.5 percent vs. the month prior to its debut.

Looking ahead, Saladworks is in discussion with a "household name chef" to create all four Signature Series salads for 2009. It plans to keep the salads as limited-time offers. "But we are not opposed to bringing any of the Signature Series salads back, if our customers demand them," Pantano concludes. ■



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A slack economy forces even more focus on the age-old process of **CROSS-UTILIZATION**.

Double DUTY



Good things happen when kitchens cross-utilize ingredients: SKUs (stock-keeping units) remain at a minimum and production is simplified. Today rising commodity costs and slumping sales have demanded an even greater focus on this age-old process.

"We have put everything under the microscope," declares Sante Fe Cattle Co.'s John Davis, president of the 24-unit steakhouse chain headquartered in Brentwood, Tenn. "You have to look at the total picture."

Part of the job is making sure ingredient lists do not swing out of hand, rigorously identifying unnecessary SKUs. It's the case at the 400-plus-unit Red Robin Gourmet Burgers, in Greenwood Village, Colo.

"We have an initiative on taking SKUs out of the system, and so far we've taken about 10 out of the new menu," says President Eric Houseman, citing roasted almonds and toasted sesame seeds as recent examples. This year's goal is a 7 percent to 10 percent reduction.

"We're not about *not* bringing in SKUs," declares Chris Tomasso, chief marketing officer for Bradenton, Fla.-based First Watch Restaurants, a breakfast- and lunch-only concept. "We're just about not bringing in incremental SKUs."

For instance, First Watch recently eliminated a bread roll and au jus, two SKUs in a French dip sandwich that were not used elsewhere. To update the menu, the chain introduced two wrap sandwiches, one of which uses roast beef. The only new SKU was tortillas, justified because R&D is developing several more wraps.

REVERSAL OF FORTUNE

Monical's Pizza Team Leader Pat Alvey, who oversees purchasing and distribution, says, "Sales figures and movement of product" have led to dumping a large number of ingredients.



The 59-unit Bradley, Ill.-based chain's ingredients list has shrunk from 100 to 70 items in recent months. Candied pecans (used on only one salad), garlic-aioli dressing, specialty bread, one of three types of sliced cheese and three types of chicken are gone. Today's slimmer menu could save each unit as many as 20 hours per week or roughly $200, Alvey estimates.

Alvey did add a SKU: precooked and frozen grilled chicken breast, which costs $1 per pound. "We are using it five different ways," he says.

The strategy is in keeping with current trends to make sure nearly everything coming in the back door will exit shortly thereafter. "It's all about velocity and usage," declares Charlotte, N.C.-based purchasing consultant

McCormick & Schmick's developed recipes that can be used with different fish species.

First Watch developed a wrap sandwich using the roast beef from a French dip.



Lauren Cahill-LeFranc of Results Thru Strategy. "Purchasing's ideal state is where culinary cross-utilizes ingredients in multiple recipes."

TOO MANY SKUS

Few industry executives know that better than Bill King, vice president of culinary and training for 87-unit McCormick & Schmick's, who also runs the purchasing department at the Portland, Ore.-based seafood chain.

Four years ago, King recalls, the company had allowed the "independent side to get carried away." The chain prides itself on catering to a region's tastes. "It was as if every storeroom had its own unique composition," he says, recalling some 1,500 SKUs.



BIG idea Sante Fe Cattle Co. President John Davis advises creating dishes with low-cost and existing ingredients to help offset other costs.





"There is always friction between marketing and purchasing." ***—Lauren Cahill-LeFranc, consultant, Results Thru Strategy***

That number has since been trimmed by half, King explains, adding that restaurant kitchens now have between 15 and 20 ingredients unique to the region they operate in.

Roughly 85 percent of the SKUs are the same from restaurant to restaurant. "We've tried to create recipes that have practical application to more than one species," King explains.

CREATING VALUE

Today's economy and competition have compelled Sante Fe Cattle Co. to develop a new value-menu section, consisting of five quesadillas, for which Davis brought in a single new item: sun-dried tomatoes, used in the Spicy Roasted Corn Quesadilla.

Davis says the existing ingredients are inexpensive enough to justify keeping the quesadillas below $7.99. What's more, such dishes help offset the rising cost of red meat, the core of the concept's menu.

"Now as we move on down the road, we'll find other uses for sun-dried tomatoes," Davis says.

Nor does McDonald's—at least not for the most part. Spokeswoman Danya Proud admits that the Oak Brook, Ill.-based burger giant has yet to cross-utilize the edamame in its 2-year-old Asian salad. So do they have a future? "I can't share that with you," Proud says.

WARY OF THE NEW

One-off ingredients like edamame are alluring, and there are times when operators contemplate bringing one in because a dish or marketing campaign holds great promise. This may necessitate an agreement with a distributor to slot new products, says restaurant consultant and former marketing executive Neil Culbertson. "An LTO like sliders may be on trend, and so you say, 'We're doing sliders.' You don't worry about cross-utilization at this point," he says.

Careful, though. Purchasing departments, which manage the SKUs at the distribution level, are wary of new ingredients. Warns Cahill-LeFranc: "What marketing and culinary may see as a trendy must-have can be a pain in the you-know-what for a purchasing agent unless the velocity at the distributor merits an inventory slot." And these days, that's certainly not a given. ■

(Opposite) Santa Fe Cattle Co. has developed dishes that use inexpensive ingredients to offset the rising cost of red meat, the core of the concept's menu.

Red Robin is working to reduce its SKUs by 7 percent to 10 percent.

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More than SKIN DEEP

Krystal's newest look boasts **ARCHITECTURAL IMPROVEMENTS** as well as cosmetic ones.

SNAPSHOT

Concept Krystal
Location Scottsboro, Ala.
Opening Day March 1, 2008
Area 2,200 square feet
Seats 50
Average Check $6.50
Unit Volume $1.6 million
Expansion Plans 10 in 2008, 15 in 2009



Chattanooga, Tenn.-based Krystal changes up its restaurants every few years to reflect current tastes in colors and finishes. With its latest redesign, though, the changes are more than cosmetic.

The new elements are designed to make Krystal more comfortable for dine-in customers and market the brand more effectively. Softer colors and upscale touches "leave customers with a warm feeling, less distraction and the ability to enjoy the key to our brand—the food," says Brad Wahl, vice president of marketing at the 400-unit burger concept.

Photography by Lance Davies



An exterior black graphic band markets Krystal to consumers in the chain's new markets.



Krystal embarked on the redesign for a simple reason: "It was time for a change," says Mike Bass, Krystal's senior vice president of administration. The company chose to remodel an 8-year-old store in Scottsboro, Ala., due to its proximity to Chattanooga, strong sales volume and seasoned management team.

IMPROVING THE EXPERIENCE

The most significant architectural difference is a low wall that divides the dining room from the ordering area. While the wall doesn't obscure sight lines, it does create boundaries between the busy ordering space and the dining room. "You can focus on the eating and dining experience, and you're not annoyed by the noises and sight of the kitchen," says Wahl. A cluster of yellow trapezoids suspended from the ceiling also visually separates the two areas.

A collection of upscale finishes improves the dine-in experience; it's a trend among QSR operators, says Kathy Diamond, principal of Scottsdale, Ariz.-based Kathy Diamond Design Associates and longtime Krystal design partner. Diamond says her challenge with Krystal was to "choose wisely" and spend money in areas crucial to the guest experience.

For instance, a lively Krystal Lovers Lounge mural now sports a border of red glass tile. The mural is one of the interior's signature pieces and a significant tie to Krystal's online marketing efforts, which include Krystal Lovers Lounge and Big Red Couch, both interactive Web sites that, according to Krystal, have helped the concept reach customers more effectively. The glass border "takes it from an industrial mural and turns it into a piece of art," Bass says.

1. Krystal's ordering counter (opposite) got a facelift, with new counters and graphics. The point of the redesign was to delineate the ordering and dining areas, thus creating a more comfortable dine-in experience.

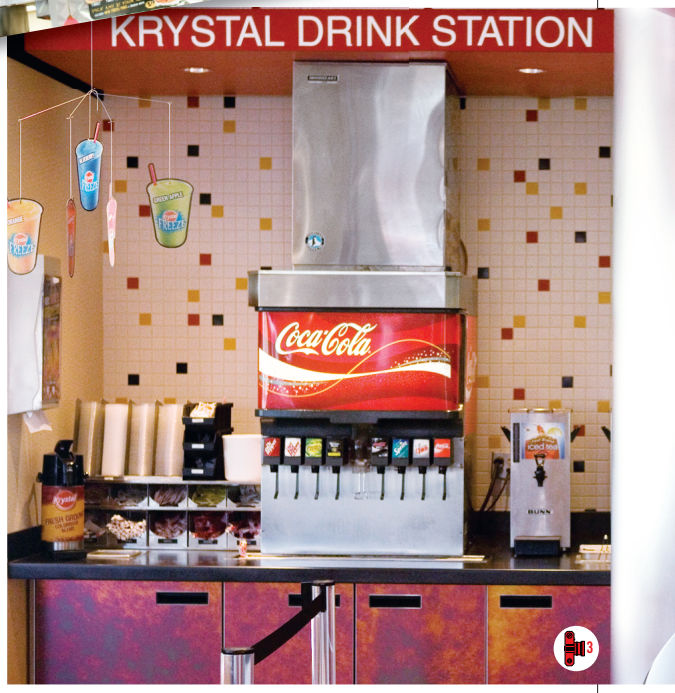
The exterior better communicates the brand, a necessity as Krystal expands into new markets.

A black band sporting menu-related words spans the upper perimeter of the dining-room ceiling and mimics a similar band on the building's exterior.



2. Stainless-steel trim on tabletops and chairs lends a contemporary feeling to Krystal's dining room, as do warmer colors.





A newly redesigned menu board complements the new interior.

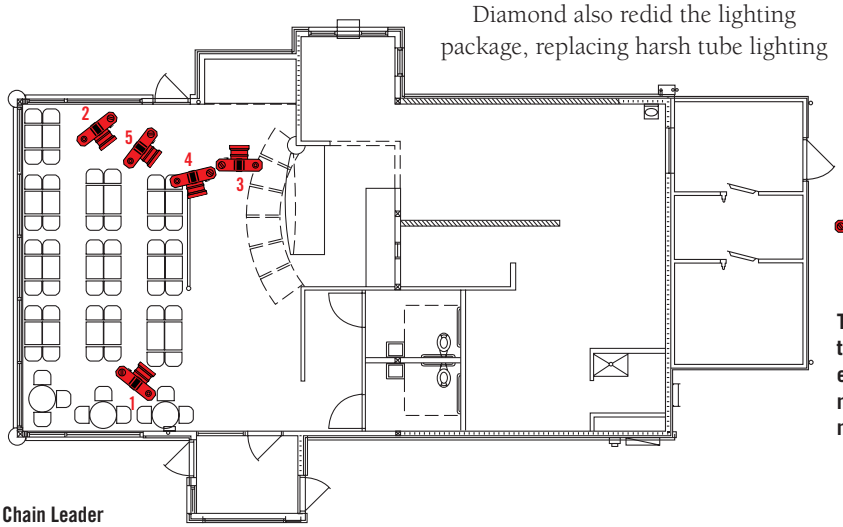
3. A glass-tile mosaic and new counter spiff up the beverage bar; it was the most expensive element in the redesign, according to Krystal executives.

Colorful glass tiles add an upscale and trendy feeling to Krystal's new interior.

Diamond made liberal use of glass, installing sparkly white tiles behind the ordering counter and a decorative mosaic of red, black and yellow glass tiles on a white background behind the self-service beverage counter. Decorative metal strips, in different colors and patterns, also appear frequently, running around tabletops, on chair backs and framing the menu board.

Diamond also redid the lighting package, replacing harsh tube lighting with recessed fixtures that can take either fluorescent or incandescent bulbs. Decorative pendants complete the lighting package.

For flooring, Diamond specified light-gray and charcoal porcelain tile for the ordering area and mottled-red carpet tiles for the dining area. Diamond has since reconsidered the carpet pattern. "Even though it's a really heavy pattern, it's just showing a lot of traffic," she says. The new pattern, a smaller one, will appear in the second iteration of the remodel, which was scheduled to open in San Antonio, Texas, in July.



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.

EXPLAINING THE BRAND

Krystal has also redone its exterior, adding marketing elements that will be crucial as the chain moves into new markets such as San Antonio.

For instance, a black band emblazoned with menu

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descriptors runs around the perimeter of the building, accompanying a marquee that says, "burgers." "They wanted something on the building to easily identify Krystal and the product," Diamond says. The black banner repeats in the dining room.

Two flat-screen televisions in the dining room serve dual purposes. One, tuned to an all-news station, is for entertainment. The other displays Krystal marketing materials. Currently, it's introducing customers to desserts and other dayparts, and Wahl says the chain is exploring more uses for it.

MOVING FORWARD

As extensive as it was, the remodel of the Scottsboro store cost only about $100,000. Wahl says new stores featuring the design will cost about $1 million to construct, about the same as older stores, adjusted for inflation and rising construction costs.

Adjustments made in the name of value engineering will be minimal. For instance, Wahl says he'd like to take 15 percent of the cost out of the beverage bar, outfitted with the mural and a new black Corian top. According to Diamond, the cost of the bar will drop naturally, a function of volume purchasing, once the chain starts rolling out the new design.

The Scottsboro store was closed a week before reopening this past spring. Due to the concept's cult-like status in that market, persuading customers to return wasn't difficult: "We opened the doors," Wahl jokes. He adds that a grand reopening and an open house helped introduce the new design to customers.

So far, customers "love" the redesign and are dining in more often, Wahl says. The location has seen a 15 percent boost in in-store dining. Traffic counts overall have risen as well, but the company doesn't have specific figures.

This current design will hold for the next year or two, then it'll be time to refresh again. Indeed, Krystal executives are already looking forward to that time.

"You've gotta be at least two years ahead of the curve," Bass says. ■

BIG idea Minor cosmetic changes every few years keep Krystal's look fresh and contemporary.



The action-packed Krystal Lover mural is meant to remind guests of the chain's online marketing efforts.

4. A red-glass tile border now surrounds the mural, making it a focal point in the front of the house.

5. A low wood-and-glass wall divides the ordering area from the dining area; the separation has increased in-store dining at the location, Krystal executives says.




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The Top 50 Chains Under 50 Units **REINFORCE THE VALUE OF THEIR BRANDS** by focusing within the four walls.

Casual-dining chains dominate *Chain Leader*'s first annual ranking of Top 50 Chains Under 50 Units. From fine-dining to budget-priced concepts, the emerging chains on this list are using various strategies to grow and leverage their brands. Some are moving forward with expansion, while others are pulling back on growth to figure out the best way to operate in an economic downturn. But what they have in common is the use of creative yet disciplined tactics to compete with large national players and deliver a dining experience that connects with customers.

"You can't rest on your laurels. The restaurant chain that is just on auto pilot is headed for extinction in today's society," says Craig Weichmann, managing director of Mastodon Ventures Inc., an Austin, Texas-based investment banking firm that specializes in restaurants. "It's about concentrating on what you can do within the four walls to stimulate some customer excitement."

VALUE ADDED

With rising gas and commodity prices, many companies on the Top 50 are offering value to grab what's left of their guests' discretionary income.







Grill Concepts debuted In Short Order in February. The 450-square-foot, fast-casual unit features soups, sandwiches and salads from its upscale-casual sister concept, Daily Grill.

Woodland Hills, Calif.-based Daily Grill, a 24-unit, upscale-casual chain, began offering a prix-fixe value menu in November 2007. Customers have the option of soup or salad, an entree, and dessert or wine for $20 to $24 depending on the entree. About 20 percent to 25 percent of entrees sold come from the value menu.

"We want to give the impression that we have a depth of menu. So if you're a value shopper, you can walk in and out for around $20 at a Daily Grill," says Philip Gay, president and CEO of parent Grill Concepts. "Or if you still want the filet or some other items, they're there on the menu."

Atlanta-based Bugaboo Creek Steak House is also trying to play up a value proposition. It debuted two limited-time promotions in spring to drive traffic on weekdays. The Kids Eat Free Tuesdays special offered children 10 and younger a free meal from the children's menu with the purchase of an adult entree on Tuesday nights. The $12.99 Ribs Day gave customers a deal on Wednesdays on Bugaboo's signature Smoked Baby Back Ribs, an item that is regularly priced at $17.99.

According to President Kristi Nyhof, guest counts increased during these promotions, but she won't provide exact figures. The 30-unit chain is offering the limited-time offers again from July through August.

While discounting is a viable means of driving traffic, it can also backfire if a restaurant relies on it for too long, disrupting food costs and average checks, Weichmann warns. "You have to make sure that what you're promoting is consistent with the image of where you're trying to drive the chain," he adds.



(Opposite) The Palm is trying to attract more women and younger guests with a new cocktail program and bar menu that it launched earlier this year.

The Gentle Palm, which features whiskey, black tea, pomegranate juice, strawberry puree and maple syrup, is one of the five new cocktails The Palm debuted this year.

Last year Abuelo's created a new menu with more food photography to prompt guests to order items that have better profit margins. "That's certainly part of the game," says President Bob Lin.

RAISING THE BAR

Some chains on the Top 50 are trying to enhance and promote their brand image with fresh components such as bar menus to attract new guests.

Taylors, S.C.-based Fatz Cafe launched a cocktail program in January that features more wines and new specialty cocktails, and a new dessert menu in March. The mid-priced, 44-unit chain, which opened five units this year and plans to open another three by year-end in the South, wanted the new menus to bring in more adults and couples. "When folks were going out for family get-togethers, Fatz was a great place," says President and CEO Steve Bruce. "But if a couple of folks were going out before the theater or whatever, Fatz wouldn't be the place they'd go to have cocktails or those desserts."

The alcohol and dessert menu seems to be working in metropolitan locations like Charlotte, N.C., more so than small towns, Bruce says. The dessert offering makes up 4 percent of sales. Bruce says the cocktail program has also driven incremental sales but will not quantify.

The Palm, a 29-unit, white-tablecloth steakhouse chain, also created a bar program to diversify its customer base. The Washington, D.C.-based company introduced five hand-crafted cocktails in April and a small bites menu in May to appeal to more women and a younger clientele. It doesn't have data on whether the new program is bringing in more women and younger customers, but early results show the specialty cocktails make up 3 percent of beverage sales and the small-plates menu accounts for 1 percent of food sales, says Executive Vice President Bruce Bozzi Jr.



BIG idea Newport Beach, Calif.-based Ruby's Diner, the 45-unit, 1940s-themed family-dining chain, has a fast-casual prototype for airports called Ruby's Dinette with a limited menu of burgers, fries and shakes. Smaller than Ruby's typical 4,500-square-foot restaurant, the Dinettes are 1,500 to 2,000 square feet, cost $800,000 to open, and generate $3 million in sales per unit.

EARNING LOYALTY

Once they get guests in the door, many chains use loyalty programs promising points or prizes to keep them coming back.

The Palm recently upgraded its 837 Club, which customers join for a $25 fee. Members not only earn points for rewards, but they also receive a $25 gift certificate upon joining, invitations to special events and members-only dinners, and complimentary wine selections and entrees.

This year The Palm redesigned the marketing collateral for the first the time in five years and added new rewards to the 15-year-old program. To cater to its younger customers, the company now has experiential rewards such as trips to Napa Valley, ballooning and race-car driving.

With 100,000 members in the 837 Club, The Palm says it enrolls 2,000 to 3,000 new members monthly. Those members make up about 42 percent of The Palm's sales, and they spent $1 million more this year over last year, says Bozzi.

Chattanooga, Tenn.-based Gordon Biersch has also seen success with its loyalty program. The 39-unit brew-pub chain's Passport Program has about 55,000 members. While customers like earning points for prizes such as a brewer's dinner or a trip to Hawaii, surveys indicate they particularly like one perk of the program: moving to the front of the line when there is a wait at the restaurants.

According to the company, Passport members average 1.7 visits per month vs. 1.2 visits for the average Gordon Biersch customer. Eight percent of sales come from members of the loyalty program, whose average check is in the $30 range; the average check of a nonmember is $24.

TECH SAVVY

To strengthen their bonds with their guests, upscale chains like The Palm and Il Fornaio use online reservation systems to capture information about their customers. When customers make reservations—either online or over the phone—the company collects e-mail addresses, mailing addresses and birthdays, as well as whether they are first-time guests. In the restaurant, servers keep track of customers' preferences such as what drinks and meals they ordered and where they like to sit. Then they input the information into the system. The server can then anticipate the customers' needs on subsequent visits.

Il Fornaio CEO Mike Hislop says such information is critical to building brand loyalty. Because the Corte Madera, Calif.-based company only opens one or two units a year, driving frequency and top-line sales is key for the Italian dinner-house chain, which has an average unit volume of $6 million and has seen comp-store-sales increases for 22 consecutive quarters. "The key has been to always be focused on the guest, to always be focused on building the relationships and really be able to take the guest from a first-time guest to a loyal guest," Hislop says.

Abuelo's has also invested in technology. Since the upscale-casual Mexican chain decided to slow expansion because of the tight credit market, it has

Top 10 Limited-Service Chains Under 50 Units

Only a few limited-service chains managed to break through on *Chain Leader*'s Top 50 Chains Under 50 Units: Portillo's Hot Dogs, K&W Cafeteria, Todai and Sirloin Stockade. The remaining limited-service chains round out the top 10.

Chain, Headquarters	2007 Sales ($ millions)	Units	Segment
Portillo's Hot Dogs, Oak Brook, Ill.	$110.0*	34	Sandwiches
K&W Cafeteria, Winston-Salem, N.C.	106.0*	33	Buffet
Todai, City of Industry, Calif.**	95.0*	23	Buffet
Sirloin Stockade, Hutchinson, Kan.	85.0*	47	Buffet
Burgerville, Vancouver, Wash.	62.0*	39	Burgers
Shakey's, Alhambra, Calif.	60.0	50	Pizza
Fresh Choice, Newark, Calif.	56.0*	33	Buffet
Wahoo's Fish Tacos, Santa Ana, Calif.	56.0*	47	Mexican
Baker's Drive-Thru, San Bernardino, Calif.	48.0*	36	Burgers
Crispers, Lakeland, Fla.	42.0*	41	Salads

Source: *Restaurants & Institutions'* Top 400; **R&I* estimate; **domestic units only

spent the past year developing an IT infrastructure. The company will roll out an integrated business-management software system to its 39 units by the fall. The system links data from the central office, POS systems and suppliers. A single source of data that houses information about each store's sales and ordering history, the program can help unit managers accurately project their sales mix, determine how much food they need to order, schedule labor and reduce paperwork. Abuelo's expects to reduce food costs by 2 points and labor by 1 percent with this new system.

"Putting something like this together doesn't make sense for a seven-unit chain or an eight-unit chain, maybe a 10- or 13-unit chain, because the savings that you're going to get aren't worth the initial cost of setting up the program and maybe even the cost of running the program itself. You have to buy it and license it and maintain it," says Bob Lin, president of Lubbock, Texas-based Food Concepts International, parent of Abuelo's.

SMALL PACKAGES

As Abuelo's slows expansion to focus on developing its infrastructure, other chains are moving ahead with opening units, in some cases smaller, more efficient sibling concepts.

In February, Grill Concepts debuted In Short Order, a fast-casual concept that features sandwiches, soups and salads from Daily Grill, in the lobby of the Sheraton Hotel in Seattle. The 450-

Abuelo's has slowed down expansion in favor of investing in its infrastructure.



Top 50 Chains Under 50 Units

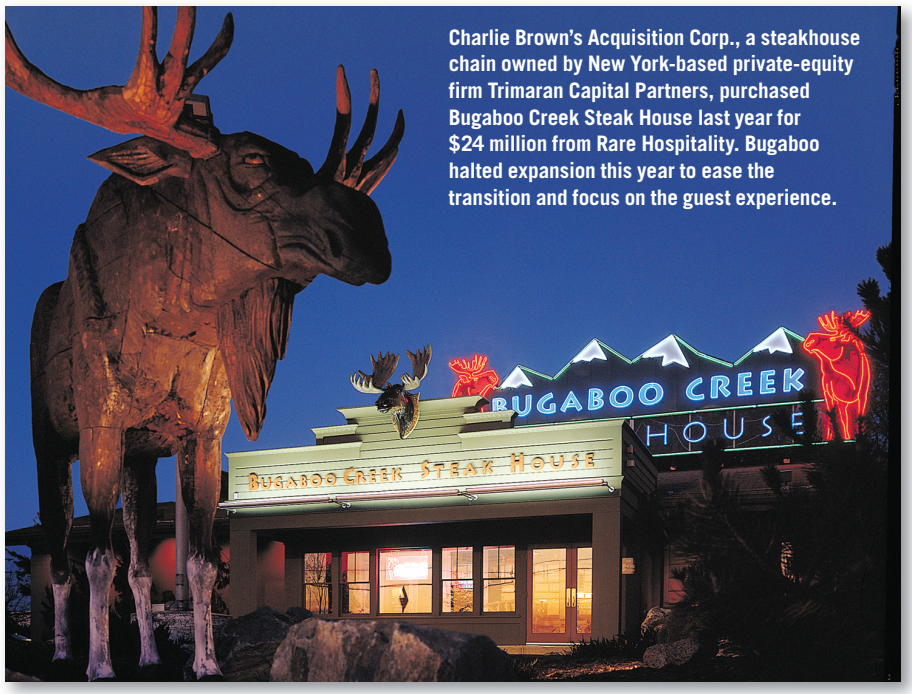
Chain, Headquarters	2007 Sales ($ millions)	Units	Segment
Maggiano's Little Italy, Dallas	$375.0*	41	Italian
Rainforest Cafe, Houston	300.0*	36	Casual
Claim Jumper, Irvine, Calif.	294.0	44	Casual
Dave & Buster's, Dallas	275.0*	49	Casual
The Capital Grille, Orlando, Fla.	219.6*	29	Steak
Houston's, Phoenix	215.0*	33	Casual
Champps Restaurant & Bar, Littleton, Colo.	215.0*	49	Casual
Legal Sea Foods, Boston	213.0*	33	Seafood
Elephant Bar Restaurant, La Mirada, Calif.	182.0	44	Casual
Saltgrass Steak House, Houston	171.0*	43	Steak
Pappadeaux Seafood Kitchen, Houston	168.0*	32	Seafood
Bubba Gump Shrimp Co., San Clemente, Calif.	160.0*	31	Seafood
Nobu, Las Vegas	155.0*	17	Asian
Ale House Restaurant, Jupiter, Fla.	154.0*	40	Casual
Palm Restaurant, Washington, D.C.	153.0*	29	Steak
Bravo! Cucina Italiana, Columbus, Ohio	143.5	38	Italian
J. Alexander's, Nashville, Tenn.	141.3	30	Casual
Don Pablo's, Madison, Ga.	140.0*	41	Mexican
Yard House, Irvine, Calif.	138.2	18	Casual
Bahama Breeze, Orlando, Fla.†	137.9	23	Casual
Gordon Biersch Brewery Restaurant, Chattanooga, Tenn.	137.9	35	Casual
Roy's, Newport Beach, Calif.	136.0*	34	Seafood
Cheeseburger in Paradise, Tampa, Fla.	136.0*	39	Casual
Rock Bottom Restaurant & Brewery, Louisville, Colo.	135.0*	38	Casual
Fogo de Chao, Dallas	128.0	15	Steak
Smith & Wollensky, New York	125.0*	10	Steak
Brio Tuscan Grille, Columbus, Ohio	121.5	24	Italian
Abuelo's, Lubbock, Texas	118.4	39	Mexican
Il Fornaio, Corte Madera, Calif.	115.0*	20	Italian
Portillo's Hot Dogs, Oak Brook, Ill.	110.0*	34	Sandwiches
Chart House, Houston	108.0*	26	Seafood
Ruby's Diner, Newport Beach, Calif.	108.0*	45	Family
Bar Louie, Glenview, Ill.	107.0	43	Casual
K&W Cafeteria, Winston-Salem, N.C.	106.0*	33	Buffet
The Old Spaghetti Factory, Portland, Ore.	105.0	41	Italian
Planet Hollywood, Orlando, Fla.	105.0*	18	Casual
Bugaboo Creek Steak House, Atlanta	102.0*	30	Steak
Giordano's Pizza, Chicago	101.0*	46	Pizza
Tumbleweed, Louisville, Ky.	99.0*	49	Casual
Todai, City of Industry, Calif.**	95.0*	23	Buffet
Landry's Seafood House, Houston	94.0*	24	Seafood
Fatz Cafe, Taylors, S.C.	88.3	40	Casual
Del Frisco's Double Eagle Steak House, Wichita, Kan.	88.0*	7	Steak
Sullivan's Steakhouse, Wichita, Kan.	86.0*	17	Steak
Shula's Steak House, Miami Lakes, Fla.	86.0*	24	Steak
Sirloin Stockade, Hutchinson, Kan.	85.0*	47	Buffet
Acapulco Mexican Restaurant Y Cantina, Cypress, Calif.	80.6	32	Mexican
Carlos O'Kelly's, Wichita, Kan.	78.5*	49	Mexican
Green Mill Restaurant and Bar, Arden Hills, Minn.	76.5	30	Casual
Daily Grill, Woodland Hills, Calif.	76.3	23	Casual

Source: *Restaurants & Institutions*' Top 400; **R&I* estimate; **domestic units only; †fiscal year ended May 27, 2007

METHODOLOGY

Chain Leader's Top 50 Chains Under 50 Units ranks food-and-beverage sales for U.S.-based restaurant chains that have 50 units or less. Culled from *Restaurants & Institutions*' Top 400, the rankings sort the brands by number of units and systemwide sales for 2007. Chains with the same sales figures are listed by company-supplied numbers, then estimates, and finally by average unit volume.





Charlie Brown's Acquisition Corp., a steakhouse chain owned by New York-based private-equity firm Trimaran Capital Partners, purchased Bugaboo Creek Steak House last year for $24 million from Rare Hospitality. Bugaboo halted expansion this year to ease the transition and focus on the guest experience.

Bugaboo Creek Steak House has increased traffic on typically slower weeknights with value-based limited-time offers.

square-foot test unit is generating more than $1,000 per square foot.

The company expects future units to be 700 to 800 square feet without a kitchen if a Daily Grill is nearby. It will cost $500,000 to open. If the unit requires a kitchen, it would be about 1,200 square feet, but the company is not sure how much it would cost to open. It plans to expand In Short Orders in nontraditional locations such as hotels, office buildings and hospitals.

Irvine, Calif.-based Yard House opened a smaller footprint of its high-volume, big-box concept in Chino Hills, Calif., in June. The Yard House Bar & Grill, which is 6,800 square feet and cost $4.5 million to open, features about 50 draft beers and 60 dishes—about half the menu of a typical Yard House. The Bar & Grill is also about half the size of a Yard House, which averages 10,000 to 12,00 square feet, costs $4.5 million to $5.5 million to open and has an average unit volume of $8.5 million.

Unlike Yard House, which is a destination restaurant in mixed-use projects, the Bar & Grill concept was designed as a neighborhood bar. So the company prefers to open them in freestanding pad sites in B markets. According to CEO Steele Platt, the Bar & Grill in Chino Hills is on track to generate between $6.3 million and $6.8 million.

"Unfortunately with today's cost of real estate, with today's cost of construction, there needs to be more attention given to the ways to reduce the size of the box," Weichmann says. "Smart growth may indeed mean you have to have a different format size that's smaller because the abundance of locations at Main and Main isn't there."

Creative tactics like these are the hallmarks of regional chains positioning themselves for disciplined national expansion, says Weichmann: "[They're] striving to achieve and trying to break down the factors that cause you to lose in this industry." ■

on the web: For trends that are driving limited-service concepts in the Top 50, visit ***www.chainleader.com.***


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Units 144
2007 Systemwide Sales $132.4 million*
2008 Systemwide Sales $150 million**
Average Unit Volume $1.3 million
Average Check $9
Expansion Plans 25 to 35 franchised locations in 2008

*Company stores only;
***Chain Leader* estimate

RJ Dourney, who franchises 13 Cosi restaurants in the Boston area, has raised menu prices by 4 percent over the last year. Raising prices is always a suspenseful proposition, but it's worked out well for Dourney.

"I have seen no guest-count erosion," says Dourney, a former Au Bon Pain executive who plans to open 12 more Cosi locations. "That's really saying something."

The 4 percent figure wasn't guesswork. Dourney based it on reports that franchisor Cosi Inc. commissions from Revenue Management Services, a Tampa, Fla.-based consulting firm. The reports, done for each of the fast-casual sandwich concept's geographical markets, "tell you how much room you have in pricing before you start losing guests," Dourney says. And that is how he was able to negotiate a price hike, necessary in this age of booming commodities costs, without sacrificing traffic counts.

Commissioning and sharing the price-elasticity reports is just one of the ways Deerfield, Ill.-based Cosi supports franchisees as they become a bigger part of the chain's growth strategy.

Traditionally, the Cosi system has comprised more company stores than franchised ones, but that balance began to shift in 2006, when the company began inking area-development agreements with businesspeople like Dourney. Cosi has signed multiple-store agreements with 27 franchisees; of those, 20 have at least one or more restaurants open.

Franchisees now operate approximately 30 percent of the restaurants in the 144-unit system; that figure will eventually rise to 75 percent. Analysts say it's a smart strategy for Cosi, which hasn't had a profitable year since it went public in 2002. "When you don't have any cash, what are you going to do?" says Nicole



BIG idea Price-point research helps Cosi franchisees make menu-price decisions that won't hurt traffic counts.

Miller Regan, an analyst with Piper Jaffray & Co. in Minneapolis.

The process, she adds, will be a lengthy one. "Franchise development takes a while to get up and running," Regan says. Plus, she adds, competition for good-quality franchisees is tough, as more companies boost franchising to grow with a minimal amount of capital investment.

INTERNAL MEASURES

To support its growing roster of franchisees, Cosi has made several internal changes, says Chief Executive Officer James Hyatt, a former Burger King executive who joined Cosi last September.

Three new executives with franchisee-related responsibilities have joined the company in the past few months. Paul Bower, formerly a divisional real-estate manager for McDonald's Corp., joined Cosi in April as chief development officer. "I went after someone who knows how to interact and partner with franchisees and evaluate the quality of real estate, so we can say 'no' more than we say 'yes,'" Hyatt says. Only 20 percent of those who express interest in franchising "get to real conversations," he says.

Cosi has also added two franchise business leaders. Kevin Marcks, who is based in Connecticut, handles the Northeast. Dwayne Skivve, who is based in the Midwest, oversees the Southeast, which is fairly new territory for Cosi. Marcks and Skivve, with Vice President of Franchise Operations Jean Grossman, CFO William Koziel, General Counsel Vicki Baue and Hyatt form "a support net," Hyatt says. "We travel to their markets…I interact with them every month."

The chain has established a franchisee advisory council, which Dourney heads. So far, the franchisor-franchisee relationship is a functional one. "We have a very cooperative group of franchisees, not like my Burger King years, when the family gets testy once in a while," Hyatt says.

FRUITFUL CHANGES

Other growth-oriented adjustments include perking up the menu. Cosi added a handful of seasonal salads, sandwiches and pizza. A barbecue-chicken pizza, run as a limited-time offer earlier this year, was the chain's No. 1-selling item during its stint on the menu; it will remain on the menu throughout the summer. Along similar lines, a fruit-and-mozzarella salad will be offered this summer.

The new menu items are meant to broaden the chain's appeal at dinner and "optimize" lunch variety, Hyatt says. The pizza and salad are examples of "the types of things we try to do to connect to the season," he adds.

The store design, too, is getting a makeover, albeit a back-to-the-future one. Cosi is moving back to what Hyatt calls its "heritage" look, with muted colors, stone floors, warm woods and comfortable furniture. "It's a softer feel, an eclectic look, and we want to stay true to that," he says. Some of the newer stores are more contemporary, with brighter colors and lighting.

SOUND ECONOMICS

Cosi's signature look has its roots in urban locations, where the chain continues to do best.

Cosi does, however, plan to expand into new markets beyond its Northeast stronghold. Hyatt calls the Southeast "the next logical progression," and names Tampa, Fla.; Atlanta; Charlotte, N.C.; Dallas; San Antonio; and Phoenix as possible new markets. San Francisco, an urban market with a dense population, is also a possibility.

Franchisee Dourney purchased three Cosi stores from the company in December 2005 and has since opened 10 more. Seven of them are located in downtown Boston, four are at the city's Logan airport, one is in Cambridge, Mass., and one is in Mansfield, Mass.

Dourney says Cosi has worked with him to get better terms on a loan, and has also helped him trim the costs and time involved in opening his next two locations. He uses a Web-based learning center that enables operators to download up-to-the-minute training materials.

But that's not why Dourney chose to become a Cosi franchisee. "I can build these units for $800,000 to $900,000, and my unit volumes are north of $1.7 million," he says. "The profitability, anyone would be very happy with."

And that, in essence, is why Cosi is stepping up franchising: to have profitable stores in the system without spending capital to build them. The ploy just might return the company to profitability. "Cosi does have solid brand awareness in the markets they've penetrated," Regan says. "They do have the opportunity to be No. 2 [after Panera] in the premium-sandwich market." ■

The company plans to return to its original "heritage" store design (opposite), which features soft lighting and comfortable seating.

Smoky BBQ Chicken Flatbread Pizza ($7.39 to $7.59 individual, $12.99 large) topped pizza sales when it was an LTO; the offering has been extended through the summer. Cosi franchisee RJ Dourney says he's "very happy" with Cosi's menu development.

A series of limited-time offers including a seasonal Fruit & Mozzarella Salad ($6.29 to $7.59) helps generate interest at dinner, a daypart Cosi would like to expand.







A crisis can hit even the best food-safety system. Well-prepared chains can **MINIMIZE THE DAMAGE**.

Ready or NOT

Crisis management. "Why is it important? Because the potential impact is significant, it is dramatic, and it is instant," says Denny Lynch, who should know. The senior vice president of communications for Columbus, Ohio-based Wendy's has worked his share of high-profile crises.

Patrick Sterling, director of risk and administration at Texas Roadhouse, says most chains have solid food-safety systems, but emphasizes, "You can be doing everything right within your four walls, but if a guest brings norovirus into your restaurant, you can have a bad situation regardless of what you do."

RESEARCH AND ASSESSMENT

Several years ago, the 303-unit, Louisville, Ky.-based steakhouse chain began a thorough risk assessment. Sterling worked with the company's insurance broker and all of the business heads to determine what could be a threat to the organization. The team spent a day evaluating the risks and prioritized those with the highest probability and the greatest impact on the organization. Texas Roadhouse then immediately began addressing those "red zone" risks.

The Risk Council now meets annually to reassess the risk map, update the team on initiatives and progress, look ahead to future risk and plan for the following year.

Linda Duke, CEO of San Rafael, Calif.-based strategic marketing firm Duke Marketing, says a crisis-management team should include key leaders from operations, research and development, purchasing, marketing, human resources and even information technology. She recommends touching base monthly: "Uncover every possible risk, chart them all, then assign responsibility, who handles what."

Because potential threats emerge and change, Famous Dave's continually tries to address new challenges. "Several years ago there was a big concern with BSE [bovine spongiform encephalopathy] and how that might affect us if it hit the United States," says Judy Koehn, director of R&D for the 170-unit, Minnetonka, Minn.-based barbecue chain. "Today produce is a huge concern, because unlike other manufacturing, we do not have the ability to trace produce back as far as we would like to."

PREPAREDNESS AND TRAINING

But Lynch says you can never think of everything. "Each crisis has its own makeup," he says. "What we teach is philosophy and approach. Think, how would this affect my business? What do I need to do?"

Not that Wendy's doesn't have plenty of preparation done. Its early-warning detection system includes



A team of executives at Famour Dave's watches for potential risks, like being unable to track all its ingredients to their source, so it can prepare for the worst.



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Texas Roadhouse will begin using a mock-crisis exercise to train operators on how to handle a food-safety emergency.

Restaurant chains can learn from any crisis, but drills and realistic exercises can help, too.

a phone tree. Managers in the chain's 6,200 stores, company-owned and franchised, are taught to first ensure the immediate safety of their employees and customers, and then call their supervisor. The supervisor calls his or her boss, and so on, until the message reaches corporate. The phone list is updated quarterly, which serves as a reminder.

To communicate back quickly, the chain uses a voicemail blast. For instance, when it pulled tomatoes this summer because of a possible link to salmonella, units were notified and told where to download a sign for the door. The voicemail blast is also tested quarterly.

"It didn't make a difference what the detail was, we have an approach for how we are going to handle it," Lynch says. "We have that protocol set up."

Franchisees and regional managers attend workshops where they run through a mock crisis. "I give them two pieces of information—maybe not correct—and I make them take action on them," says Lynch. "Then we go through and solve the crisis."

Texas Roadhouse will begin a similar exercise this year. "It opens your eyes to either how prepared or unprepared you might be for a situation," says Director of Public Relations Travis Doster. "The more you do something, the better you get, but you don't want to go through it."

This year the chain rolled out a printed piece, Critical Incident Guidelines, which folds up to the size of a credit card. Every manager and shift leader can carry the piece, which includes critical action steps and local and corporate contact information. "So many companies send a manual out to the store, which goes on a shelf," Sterling explains. "But often the manager isn't in the store."

Duke recommends preparation on the marketing side as well. "Identify potential risks and create a message for each one," she explains. "What do you say to media? You may not know all the details yet, but you should have a format set up of who, what, where, when and why so you can plug the details in immediately."

BIG idea "Our own employees have cell phones with cameras, and they take photos of everything by rote," says Wendy's Denny Lynch. On one hand, that could mean possible evidence; on the other, they could be sending damaging images to friends.



SPECIAL ADVERTISING SECTION

Franchise Developer

Profiles in Growth: Colton's Steak House & Grill

With 15 years' experience in franchising concepts from frozen yogurt to pizza to steakhouses, Ed Featherston knew a few years back that a unit in one of his prime locations in Jefferson City, Mo., was getting, as he puts it, "tired."

He started looking for a fresh concept to energize the space, and chose Colton's Steak House & Grill, a Western-style steakhouse chain with locations in Arkansas, Missouri, Mississippi, Tennessee and Kentucky. "I wanted a concept that was fun and attractive, and that would invite people in just by looking at the building," he says. "Colton's delivers that. It brings a lot of camaraderie, and the food quality is phenomenal."

The location, opened in 2005, quickly doubled its previous sales, and Featherston's second unit in Sedalia, Mo., opened in February 2008.

Q: How will you expand?
A: I'm not stopping at two, that's for sure. The profitability has been very good. These things are just like a big 7,000-foot cash register once you get them open. I'd like to open one store a year in my area, which is central Missouri—including one in my hometown, Kirksville.

Q: How do you plan to improve?
A: You have to keep everything fresh. We revamp our menu on a quarterly basis with inserts, and try different in-house specials, like an 8-ounce Del Rio burger rubbed with Southwest seasoning and topped with chipotle butter and deep-fried onions. We share recipe ideas between Colton's franchisees with an online message board. We're also developing a steak seasoning line for retail sales.

Q: Where do you think things are going in the future?
A: Being in business, you have to accept the fact that if it's a slower economy, you just have to work as hard or harder than you are now. One thing that I think has good potential for us is curbside delivery. That's about 5 percent of sales currently, and I see that growing.



Multiunit franchise operator Ed Featherston chose Colton's to revive his space in Jefferson City, Mo.

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Communication with corporate, employees, franchisees and local authorities is key in preparing for a crisis and handling one.

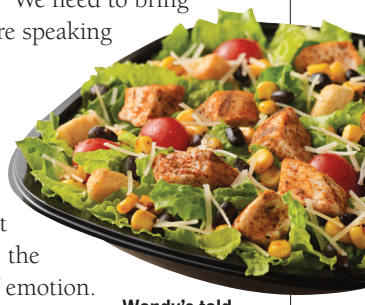
IF THE WORST HAPPENS

If the worst does happen, Duke says, admit the problem but emphasize the positive. "You don't want to be caught saying, we didn't mean to kill anyone," she says. "You want to be quoted saying, we are in the top 10 percentile in food-safety inspections across the country, this is an isolated incident and we are doing everything possible, working with the health department, etc."

Duke says communications should come from corporate, not from franchisees or managers. The chains we spoke to have 800 numbers or other systems for operators. "We need to bring that back to corporate, so as a chain we're speaking with one voice," Koehn says.

"We have trained representatives in every area of the country to talk to the news media," says Lynch. "We're protecting a national brand."

Lynch says in any crisis, from a report of food-borne illness to a store shooting, the people involved are dealing with a lot of emotion. He says crisis managers need to treat them with respect, but be aware that the emotion may hinder their ability to provide accurate information.



Wendy's told units not to serve tomatoes via voicemail blast.

ACCENTUATE THE POSITIVE

Despite the uncertainty and other factors restaurant operators can't control, Doster says positives can come out of a crisis: "When you go through something and you help a restaurant, maybe minimize their risk or minimize the damage, you gain some credibility with your other operators."

He tells the story of a fire in a Texas Roadhouse unit, where there was a lot of food that needed attention quickly. The chain partnered with a Marine base and threw an impromptu fund-raiser for a local nonprofit, turning the crisis into a benefit.

Duke applauds such creativity. She tells of a West Coast chain that turned around a situation where some underage kids used fake IDs to drink in the restaurant and then crashed on the way home. The chain established a scholarship where the teens attended college, and won goodwill and good press.

Koehn, too, sees opportunity. When guests asked why they couldn't get tomatoes, Famous Dave's staff was able to reinforce the chain's standards as it explained why.

Then there are the lessons learned. Much of Lynch's advice comes from making mistakes, he says. And he learned by doing post-mortems. "They're critical." he says. "You learn your well betters: what you did well and what you can do better. That becomes the lessons that you gain and can apply to future crises." ■

on the web: Denny Lynch shares what he learned from Wendy's recent high-profile crises. Visit ***www.chainleader.com.***

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La Madeleine Director of Operations Phil Costner has developed new menu items such as mini desserts and fresh salads.

FORGING AHEAD

Despite steep commodity prices and a tough economic climate, La Madeleine invests in fresh menu development.

With a new store prototype that streamlines traffic and takeout procedures and new management at the helm, La Madeleine is poised to make more headlines. The Dallas-based bakery-cafe chain is investing in a fresh crop of new products while contending with rising commodity prices and a sluggish economy. Phil Costner, who left his position as vice president of food and beverage research and development at T.G.I. Friday's to become director of operations for the 64-unit chain last August, spoke to *Chain Leader* about the new menu direction.

How have rising commodity prices and the current economic situation impacted La Madeleine's strategies?

The price of flour has tripled over the last year. That's pushed dairy up, and all of the feed grains have an effect on several of the proteins, so it has not been a kind year in terms of commodities and La Madeleine. La Madeleine has a long heritage as an artisan bakery, so when flour goes up, it has a huge impact on us, and it makes it very, very hard on us.

In spite of these challenges, you have not cut back on the development of the menu.

As far as menus are concerned, we're still surging ahead. We haven't curtailed anything. It's really heightened our intent. We've become razor focused on our guests and on those products that are really going to make a difference in their lives.

What are some of those new items?

In the bakery we've put a lot of work into a cache of mini desserts launched July 3: a beautiful little Sacher torte parfait, tiramisu parfait, crème brulee in a crust, lemon tart. While they're smaller, they still deliver great taste at a great price. We have more minis under development with a seasonal focus.

Also, we're extending the mini line beyond the pastry case to apply to items in other dayparts as well. We're working on some new loaf-style breads, a different kind of baguette and French specialty breads for sale through the bakery and for use with our sandwiches. And we're focusing new attention on our La Cuisine Vitale items that are lighter.

For the cold-weather months, in March you introduced some new hearty dinner entrees. I'm wondering how they did and if you will bring them back?

We had a very traditional Beef Bourguignon en Croute with red-wine-marinated beef in sauce with carrots, pearl onions and rosemary potatoes, with puff pastry; an Herb-Crusted Pork Florentine with spinach stuffing and garlic cream sauce; Chicken Cordon Bleu; and, my favorite, Red Wine-Braised Short Ribs with garlic mashed potatoes and sauteed mushrooms. They're very traditional, simple to understand from the guest point of view. We were very happy with the way they performed. So I wouldn't be surprised if we saw at least a couple of them return next year.

I understand you're in the midst of a new salad promotion for the warm-weather months.

We've got a new Chicken Rotisserie Salad and a Summer Salad with fresh fruit in it. The preliminary feedback so far has been extraordinary. People are loving these. But the promotion is really about encouraging our guests to bring a friend. When they do, they get one salad at full price and the second salad at half price.

Lunch is about 50 percent of your business. Anything new you're doing here?

We're taking a look at different portion sizes, ways we can pair sandwiches up with other items on the menu. Also, we're working on incorporating house-baked artisan breads into our sandwich line. So in the forseeable future, the sandwich you'll be enjoying at lunch will be made on the same bread that we'd love to see you purchase and take home with you. ■

ON THE WEB: Read or listen to a downloadable extended interview with Phil Costner at ***www.chainleader.com.***





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