Vol. 13, No. 12
December 2008

chain leader®

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TREND-FORWARD INSIGHTS TO BUILD BRANDS

Culverization: defining the brand.
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RFID technology tells Blue C chefs when to toss sushi.
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Marco's animates **online training.** PAGE 38

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What Lay Ahead

From the economy to organics to Millennials, *Chain Leader* presents the people, places and trends that will shape the industry in 2009.

PAGE 26

RBI™

Sellers Market, an upstart from San Francisco, attracts Millennials with organic, local fare and WiFi.

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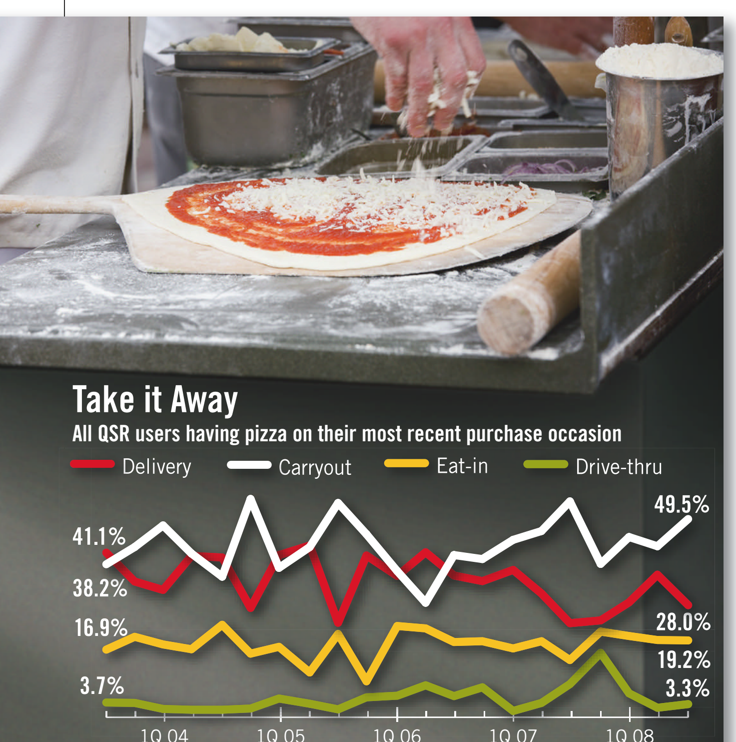
Built for SPEED

Pizza chains send most of their food packing, via delivery drivers or customers.

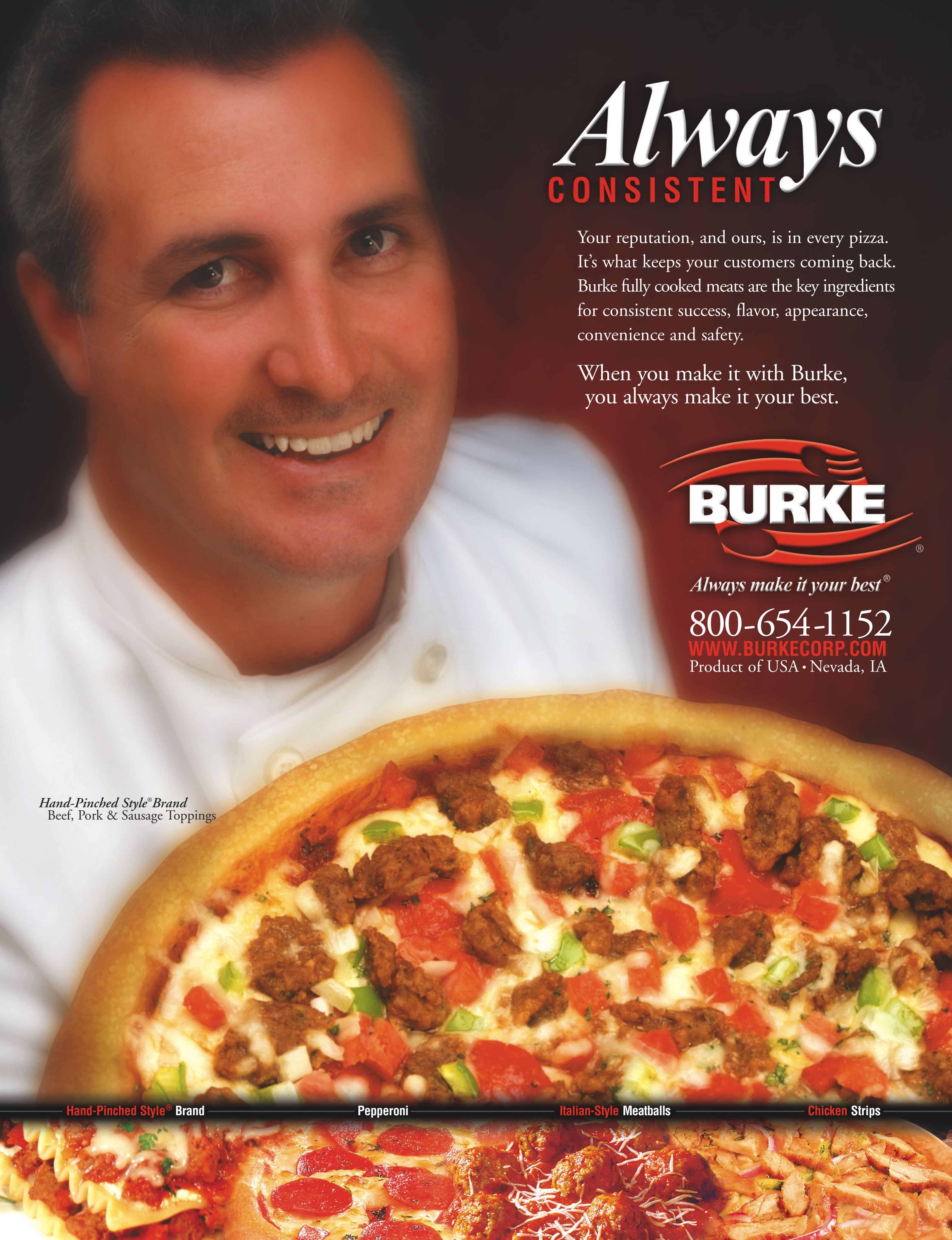
National pizza chains see a majority of pies walk out the door. Fully 43.0 percent of fast-food customers ordering pizza on their last occasion used carryout, a 21-quarter average shows; 34.1 percent, delivery; and 18.3 percent, eat-in. In comparison, of all QSR users' last occasions, 32.3 percent were carryout; 9.9 percent, delivery; 28.1 percent, eat-in; and 29.7 percent, drive-thru, according to Quick-Track, a quarterly survey by San Clemente, Calif.-based research firm Sandelman & Associates.

- Pizza chains receive 17.2 percent of all QSR occasions. And 21-quarter averages show they garner 28.8 percent of dinner occasions, 28.7 percent of carryout occasions and 82.4 percent of delivery occasions.
- Quick-service customers who ordered pizza on their last occasion were most likely to do so at dinner: 77.7 percent. A 21-quarter average reveals that 48.2 percent of all QSR users' last occasions were dinner.
- Pizza is most popular on the weekend. 28.9 percent of fast-food users who ordered pizza on their last occasion did so Friday (vs. 22.2 percent of all users' last occasions) and 17.2 percent did on Saturday (vs. 14.2 percent of all).
- According to a 21-quarter average, 39.5 percent of those who had pizza on their most recent occasion used a special deal (vs. 18.9 percent of all users). Of those who took advantage of a promotion, 38.0 percent learned about the deal from direct-mail fliers, 26.5 percent from newspapers, 17.9 percent from signs at the restaurant, and 14.4 percent from television.
- The average amount spent per person is larger for fast-food users having pizza on their last occasion: $5.63 vs. $5.14 for all users' last occasions. The average check per party is also higher ($21.27 vs. $14.02), as well as the number of diners per party (3.8 vs. 2.7).
- While 27.6 percent of all QSR users were alone on their most recent occasion, only 8.8 percent of those who ordered pizza were. Customers having pizza were more likely to be with their spouse (46.5 percent), kids (40.0 percent) or friends (20.6 percent). ■



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

ON THE WEB: For Traffic Trends data on other chain segments, visit www.chainleader.com.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What Lay Ahead

Chain Leader's guide to 2009 presents the people, places and trends that will shape the chain-restaurant industry in the coming year, from the economy to organic food. You'll find plenty to worry about. But you'll also find ideas for taking the lead.

By David Farkas

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By Lisa Bertagnoli

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Church's Chicken opened its first franchised store in India in September. CEO Harsha Agadi spoke to *Chain Leader* about why the second most populous country in the world is fertile ground for expanding the QSR brand.

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Marco's Pizza is rolling out a Web-based, interactive training tool that features animation to better connect with younger workers and ensure consistency across the system as it triples in size over the next few years.

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- Charlie Morrison implements a turnaround strategy at Pizza Inn
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HOW TO GROW TO 100 UNITS

- Restaurant consultant Kevin Moll on what to outsource
- Jim Parish of Parish Partners on preparing a concept for sale
- Harry Bond of Monical's Pizza offers tips for retaining managers

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- Industry blogs from chain veteran Lane Cardwell, upstart Vaughan Lazar and Senior Editor David Farkas
- Daily news
- Franchise opportunities
- Topic-specific pages on marketing, expansion, operations and more

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Predictions and Warnings

Relying on knowledge gained from years of covering restaurants, and with the help of industry leaders, Senior Editor David Farkas put together a concise look at what to expect from the coming year. He examines the economy and it's impact on franchising, union threats, customer trends and more that we all will be paying close attention to.

Allow me to add my own predictions. I've been accused of wearing rose-colored glasses when I look at chain restaurants. But these days I don't see much to be optimistic about.

> If you're a regular reader, you know me as an optimist, maybe even a naïve one. But not today. I don't see good times in the near future for restaurant chains and their partners.

THINNING THE HERD

More restaurant companies will file for bankruptcy and close altogether. Just as Mother Nature sends lightning to spark fires that regenerate dense forests, the macro-economic pressure will thin our oversaturated market.

There are too many chains that don't have compelling points of differentiation. Customers can get a decent Buffalo chicken sandwich or good portion of teriyaki-glazed salmon at a variety of price points, locations and levels of service. If your concept can't really convey what makes yours worth coming in for, you might be in trouble.

The labor market might be good now, but it's not going to last. Our friends at People Report have been warning the industry for a long time that the numbers just don't add up: There won't be enough workers for the positions we need to fill. On top of that, health-care and education are aggressively pursuing the same workers, especially those who might make good general managers, and the situation looks even more bleak.

Finally, I like President-elect Barack Obama's ideas about community work and inspiring young people to serve, but do you think those service-oriented people are going to choose restaurant jobs, however noble they are, over teaching or health-care positions? We have a tough sell.

LEGISLATION LOOMS

Speaking of Obama, I'm concerned with the unions' growing influence thanks to his support. Remember the good old days, when you could avoid organized labor by treating your employees well? Those days might be past as card check makes it easier for a union to get into your organization.

I expect other legislation to keep the industry on its toes. Once municipalities see nutrition labeling work in New York, they will get in line to pass similar laws. Add a layer of complexity if your concept offers customization, which consumers demand even more than nutrition information.

Just when you need them most, your suppliers are offering fewer incentives and traffic builders. They're hurting, too. And just like you, they need to justify every expense and focus on their best and most profitable customers (who aren't necessarily the same customers). Chains that will win are those whose suppliers are considered partners. One of the worst things you can do is put yourself into an adversarial position against them.

I want to soon return to my optimistic viewpoint. I'll start by hoping things aren't going to be this dreary. ■

BIG ideas

"Pessimism never won any battle."
—Dwight D. Eisenhower

"I don't believe in pessimism. If something doesn't come up the way you want, forge ahead. If you think it's going to rain, it will."
—Clint Eastwood

"I'm not afraid of storms, for I'm learning how to sail my ship."
—Louisa May Alcott

"Never make predictions, especially about the future."
—Casey Stengel

"The best thing about the future is that it comes only one day at a time."
—Abraham Lincoln

Mary

Mary Boltz Chapman
Editor-in-Chief

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Reed Business Information

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A tax specialist shares how chain operators can take advantage of new IRS rules.

Tax TACTICS

"Another change effective for FICA credits generated in 2007 is that the minimum wage used to compute FICA credit is frozen at $5.15 per hour."
—Lisa Haffer

Few restaurant owners find it easy to navigate Internal Revenue Service rules as they apply to their business. Yet an understanding of changes in the tax code may save them money and avoid audits. We asked Lisa Haffer, a lawyer and certified public accountant who works as a tax partner in the Cincinnati office of SS&G Financial Services, for an overview of several new IRS provisions that operators may not be aware of.

What do owners need to keep abreast of?
Among the areas often missed by restaurants and their CPAs are: tax treatment of smallwares and expansion costs, potential exclusion of tenant-improvement allowances from income, gift-card deferral rules, and five-year depreciable life for most restaurant equipment.

What are the issues regarding gift-card deferrals?
Gift cards are a very hot area with the IRS, and one area tax examiners are likely to focus on when auditing a restaurant company. Restaurant operators may not be aware there are two tax-deferral opportunities for gift-card revenue: a one-year and a two-year deferral of unredeemed gift-card revenue.

But there's a catch, right?
Operators may not be aware of the requirements that must be adhered to for the more generous two-year deferral. For example, the same taxpayer that sells a gift card must be the one who redeems it. So gift-card sales by a franchisee that can be redeemed across the nation at another franchise location may not qualify for the two-year deferral. Using the two-year deferral also requires you to attach a statement to the tax return each year, setting forth the activity in the gift-card liability account.

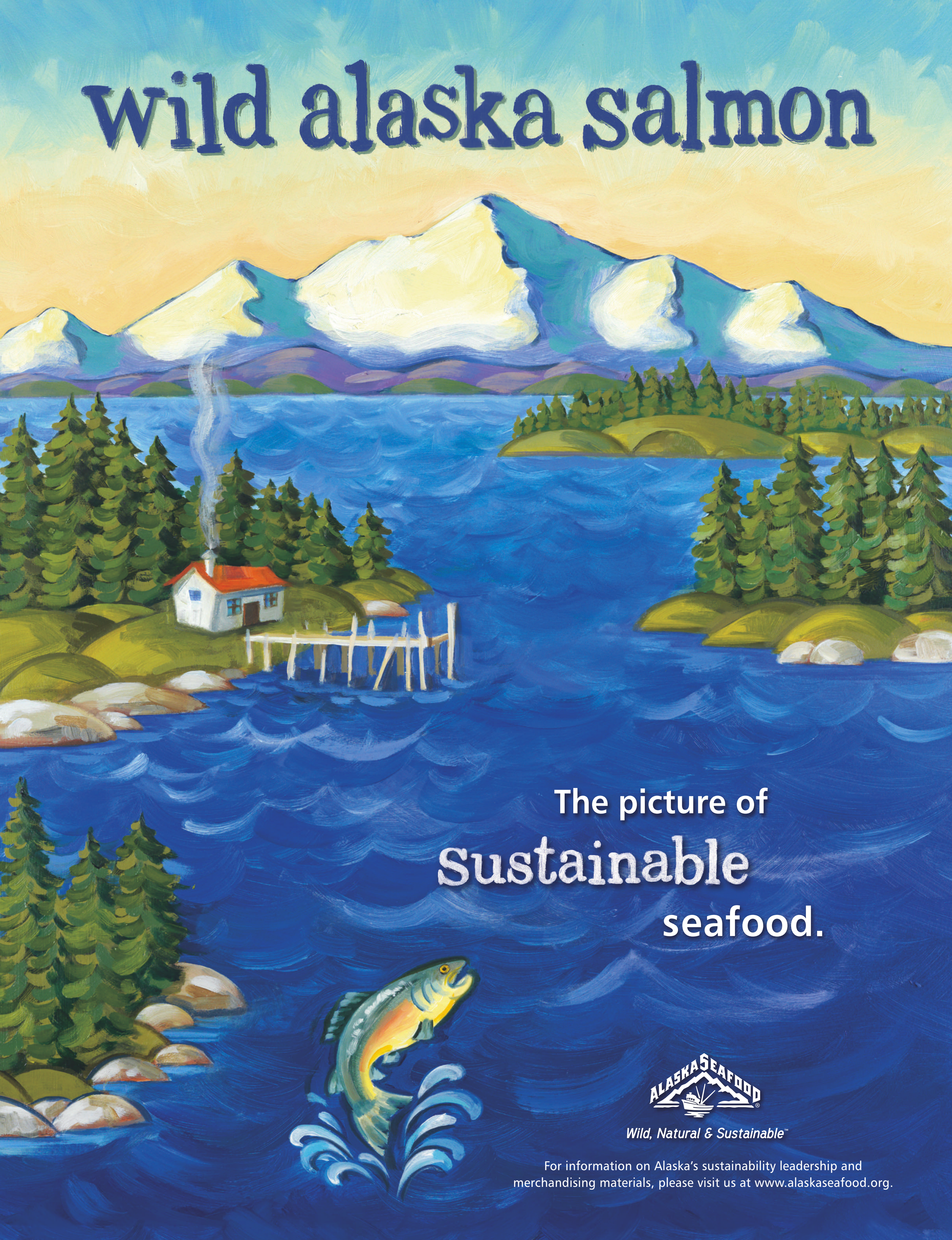
FICA tax credits are generating interest because of new benefits to operators. Can you explain the advantages?
For years FICA credits could not be used to offset alternative minimum tax. As a result, taxpayers either ended up with a surplus of unused credits that they carried over from year to year, or they simply elected not to claim the credit at all.

What changed?
Effective for credits generated in 2007, FICA credits and the Work Opportunity Tax Credit can be used to offset alternative minimum tax. So credits generated in 2007 and future years are going to be very valuable to restaurants and their owners.

Can you explain the new "bonus" depreciation rules?
Most assets of any business that were placed in service in 2008 qualify for the 50 percent so-called "bonus" depreciation. For restaurants this actually translates into a 60 percent depreciation deduction. If that seems confusing to operators, I advise leaving the math up to their accountants. But restaurant owners should understand that this 60 percent figure is in contrast to 20 percent under the former law.

Are there other IRS issues operators need to be aware of?
They should ask a tax professional about the recent IRS extension of the favorable 15-year depreciable-life provision for leasehold improvements and other restaurant property, which includes buildings. It's a complicated issue. ■

IN THE WORKS: Haffer warns that states might begin taxing franchise royalty fees regardless of a franchisor's location.



HIGHER Purpose

Elevation Burger expands with an eco-friendly approach to burger and fries.

Elevation Burger plans to make an environmental and competitive impact with its eco-friendly concept. The Arlington, Va.-based company says its commitment to being a carbon-neutral company that serves healthful, organic fare should set Elevation Burger apart in the crowded premium-burger segment as it embarks on franchised expansion next year.

Founder and CEO Hans Hess, a former real-estate consultant, launched Elevation Burger in 2005 in Falls Church, Va., after spending three years developing the fast-casual concept. The made-to-order burgers on the limited menu feature organic, grass-fed, free-range beef. French fries are cooked in olive oil, which is then converted into bio-diesel. And cookies are made with organic eggs and butter.

Restaurant construction follows suit using renewable materials. The modern yet cozy decor features bamboo flooring, low- or no-VOC paints that emit little or no toxic fumes, recycled bead board and acoustic ceiling tiles, compressed sorghum tabletops, compact fluorescent bulbs and energy-efficient equipment. Although the company store does not meet the Leadership in Energy and Environmental Design guidelines of the U.S. Green Building Council, Hess says the franchisees that have signed on so far have volunteered to build their stores to earn LEED certification. "Most people who are attracted to the Elevation Burger concept understand that part of what we do is our environmental focus," Hess says.

Elevation Burger will encourage franchisees to purchase Clean Energy Offset Credits to reduce their stores' environmental footprint.

The menu features burgers made of fresh, organic, grass-fed beef and french fries cooked in olive oil.

SNAPSHOT

Concept Elevation Burger
Headquarters Arlington, Va.
Units 1
2009 Systemwide Sales $4.6 million*
Average Unit Volume $830,000*
Average Check $11*
Expansion Plans 9 in 2009, at least 6 in 2010

*Chain Leader estimate

SERVING THE CUSTOMER

While franchisees are aware of the effects of Elevation Burger's green principles, the company is not so sure customers fully understand how the concept's eco-friendly practices benefit them. So Elevation Burger will launch new in-store signage in December that touts the benefits of organic food and renewable resources. For example, a sign will explain that grass-fed beef contains higher levels of omega 3 fatty acids than conventional grain-fed beef.

Elevation Burger wants to not only educate customers but also enhance their experience in the store. This year it created a new position: The Guest Guru delivers food to the customers and attends to their needs such as refilling drinks and clearing tables.

Elevation Burger is also testing a new cooking method for the burgers. Hess won't elaborate on how he plans to shorten the cooking time, but he says it will lower ticket times to five minutes; ticket times are currently six to seven minutes during slow periods and 12 minutes during peak shifts.

GROWING GREEN

In the meantime, Elevation Burger is looking forward to expansion. Franchisees will open nine restaurants in 2009 and at least six more in 2010 in Washington, D.C., Maryland, New Jersey, Virginia, Pennsylvania and Texas.

It costs about $338,000 to $599,500 to open a unit, which ranges from 1,500 to 2,000 square feet. The company plans to open in endcaps in strip centers, power centers and lifestyle centers in a mix of residential and business areas. Elevation Burger targets college-educated customers, women and families with young children.

"People who spend a buck more on a hamburger meal and have the understanding or education where they understand what the product is, they get the value proposition," Hess says. "Those customers flock to us."

Elevation Burger expects to have 500 units open in five years. ■

IN THE WORKS: Elevation Burger is considering LCD screens in the stores featuring information about its eco-friendly business practices.

the internet delivers...

over $1 billion

in online sales

grab your share with

fishbowl's

online ordering

"We've watched the growth and success of online ordering in the pizza segment and saw that adding this revenue stream will introduce increased take-out and catering orders for our stores, while making it easier for our customers to do business with us. Fishbowl's easy-to-use and integrated online ordering solution was our clear choice to make this happen."

Suzanne Irish
Director of Marketing
Dickey's Barbecue Pit
www.dickeys.com

for a free demo call

800.836.2818

fishbowl®
online ordering
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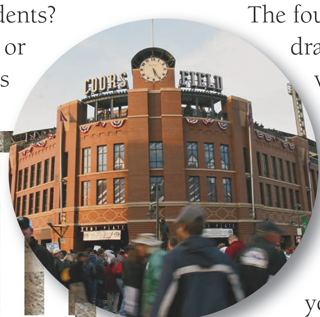
The Kindness of STRANGERS

Visitors, not locals, support the dozens of restaurants packed into Denver's tiny Lower Downtown district.

Here's a puzzler: How do 100 restaurants survive in a 25-square-block area that has fewer than 1,500 residents?

For Denver's Lower Downtown, or LoDo, there are four answers: Coors Field, Elitch Gardens, The Denver Center for the Performing Arts and Pepsi Center.



Coors Field, home of the Colorado Rockies baseball team, is located on the northwest edge of LoDo and draws about 2.45 million baseball fans a year.

The four tourist attractions draw more than 7 million visitors a year. And that may or may not count the millions of travelers who use Denver as a staging area for Rocky Mountain ski vacations.

"Depending on where you are in LoDo, you're either close to Coors Field or The Denver Center for the Performing Arts," says John Imbergamo, a Denver restaurant consultant and board member of The LoDo District Inc., a nonprofit group that supports businesses in the area.

The restaurants in LoDo are "a combo of independents and chains unmatched in the city," Imbergamo says. Chains in the area include Morton's The Steakhouse and P.F. Chang's.

LoDo is a historic collection of 19th-century warehouses that have, in the last

from the street

AREA LoDo (Lower Downtown), Denver, ZIP code 80202
POPULATION 1,493
MEDIAN AGE 45.1 years
MEDIAN HOME VALUE $396,000
COMMERCIAL RENTS $25 to $34 per square foot annually
NOTABLE DEVELOPMENTS Sixteenth Street pedestrian mall, whose northwest end juts into LoDo; Union Station, currently under redevelopment as a transportation hub for the city; 1401 Wynkoop, with 22 condos and 100,000 square feet of office space; SugarCube Building, with 37 condos, 50,000 square feet of office space and retail.
OPERATOR PERSPECTIVE Chipotle has had a restaurant in LoDo since 2003. "It's a really bustling part of the city," says Chris Arnold, spokesman for the 800-unit chain. The 2,200-square-foot, 75-seat restaurant "definitely skews to lunch," due to the business traffic in the area, Arnold says. Indeed, the restaurant closes at 9 p.m., rather than at 10 p.m. as do most Chipotle locations, and is not open on Sunday. Arnold says the store does well, though he won't discuss exact figures. He also jokes that the location "might be the hardest store in the country to run," due to its proximity to the company's headquarters in LoDo.

ON THE WEB: Historic districts are beautiful and popular, but for chain operators, are they worth the hassle? Find out on *www.chainleader.com.*

Restaurants in historic 19th-century LoDo buildings must undergo a strict review during the design process.

two decades or so, been refurbished and converted into lofts and retail space. Development continues with 21st-century structures, among them 1401 Wynkoop and the SugarCube Building, which are both mixed-used developments comprising retail, restaurants and office space.

TRICKS OF THE TRADE

Restaurants opening in the new developments must follow the standard city building codes—no surprise there. But restaurants located in the historic buildings must adhere to strict design codes.

"It's not a simple thing to come in and install your trade dress down here, like you would in a suburban location," Imbergamo says. New businesses must submit to the rigorous LoDo Design Review, established in 1988 during the area's revitalization. "Locals know that the review is important, and chains learn that relatively quickly," he says.

"They're really strict, for all the right reasons," agrees Steve Halliday, president of Denver-based Pacific Rim Hospitality, a multiconcept operator. This winter, Halliday is opening his third pan-Asian Ling & Louie's restaurant on LoDo's 16th Street pedestrian mall. He says his architect had to work with seven offices to clear the required design hurdles.

But he gladly endured the review. Halliday expects the 5,800-square-foot, 225-seat restaurant to gross $5 million, twice the volume of the other two Ling & Louie's restaurants. He expects fully half of business to come from tourists.

NOT FOR EVERYONE

His great expectations aside, Halliday thinks that a LoDo location won't work for all concepts. To do big volume, dinner service and a liquor license are a must. Plus, the location lacks the amenities of suburban locations, for instance, street parking. But the area has plenty of garage parking. Tourists quickly learn to park and walk the strip of restaurants and shops.

Imbergamo adds that another hurdle to thriving is competition, simply because LoDo is packed with many restaurants and bars. "If you don't stand out and do well, you're not a pioneer—you're one of many," he says. ■

A New VOCABULARY

Culver's **DEVELOPS NEW LINGO** to better define the chain and its iconic menu items.

Ask Vice President of Marketing Chris Contino to describe Culver's iconic menu item, and he'll say, "We think frozen custard is what ice cream wants to be."

It is a funny quip, but for frozen custard fans, it has the ring of truth to it. From a branding perspective, though, it can present a challenge. "Sometimes it scares people not familiar with it," Contino says of the dairy dessert.

Contino helped the Prairie du Sac, Wis.-based chain launch a new branding campaign this year to help make the unfamiliar—both the chain and the custard—familiar.

In late 2007 the chain switched from using a Wisconsin-based ad agency to signing MARC USA, based in Chicago. The move was designed to help Culver's ButterBurgers &

SNAPSHOT

Concept Culver's ButterBurgers & Frozen Custard
Headquarters Prairie du Sac, Wis.
Units 388
2008 Systemwide Sales $650 million (company estimate)
Ad Agency MARC USA, Chicago
Average Check $7.75
Expansion Plans Passing the 400-unit mark in 2009

"Drive-Thru" *Length: 30 seconds*

Frozen Custard extend its reach outside its traditional upper Midwest core market, preparing it to exceed the 400-unit mark and for its 25th anniversary, both in 2009.

LOYAL FOLLOWING

"Culver's was a little bit like Coors in 1975," explains Jean McLaren, president of MARC USA's Chicago office. "They had this cult following with people who were just off the charts in terms of loving Culver's." That devotion made McLaren's job easier. "It is not like this brand was a disaster," she says.

Still, MARC USA had its challenges. The economic slowdown was beginning to hammer the industry, if not the chain, late in 2007, and the brand has some quirks that make it hard to define. In addition to the basics, like what is frozen custard, confusion sometimes pops up about Culver's industry segment. The chain is quick service with a drive-thru, but dishes are made to order and servers deliver orders both to customers waiting in their parked cars and to tables in the restaurants.

Those points of differentiation—and an atmosphere that harkens back to what McLaren calls a kindler, gentler time—laid the groundwork for what was eventually termed "Culverization," the process of becoming familiar with and a fan of the chain.

Culver's frozen custard and ButterBurgers are legendary among its fans, but MARC USA found that the attitude and ambience of the chain were equally important in defining the brand.

"In society right now, there is this craving for civility. We have lost the ability to live graciously," McLaren says. "Part of Culverization is that courtesy. And that allows people to make an emotional connection to the brand."

LANGUAGE ARTS

In addition to billboards and online advertising, a new TV and radio ad campaign underscores these elements. In one ad a man "prepares to be Culver-

BIG idea Culver's 2009 branding campaign will highlight that the chain is not just for lunch or dinner but a place for dessert after a dinner date or a post-school snack for the family.

New TV commercials highlight some of Culver's core differences such as servers delivering food directly to customers waiting in line.

Culverisms are at the root of Culver's new branding campaign. These sayings, which summarize what the chain is all about, appear everywhere, from the company Web site (opposite) to straw wrappers.

“Custard with Concrete Mixer” *Length: 30 seconds*

Culver’s branding effort allows it to emphasize its value—a fast-casual experience at a QSR price—without having to resort to price promotions.

ized” while waiting for his drive-thru order to be delivered to him in his car. A sweet, polite server brings him his order as he is talking to himself in the car. Another commercial focuses on the table service inside the restaurant. The ads, which began airing in April 2008, are paired with information on specific menu items such as the Concrete, Culver’s extra-thick custard shake with mix-ins.

It was not just the new ads that helped Culver’s solidify its positioning. The chain ran contests, urging employees and guests to submit ideas for “Culverisms,” platitudes that summarize the chain’s attitude. The in-store menu board, materials and packaging feature the Culverisms. Takeout bags feature one Culverism, “Think of this as a gift bag for your taste buds,” while a coffee sleeve reads, “Holding me is like a handshake with an old friend.” The Culverisms are on e-cards, too, that customers can send through the chain’s Web site.

The team also overhauled the menu boards to make them easier to read and prevent diners from being overwhelmed by the chain’s large menu.

This new branding effort has also allowed the chain to emphasize the value customers get at Culver’s—a fast-casual experience at a QSR price—without having to get competitive with price promotions. In its 24-year history, it has never had a dollar menu and has shied away from price promotions.

MORE EATING OCCASIONS

So far, the effort is paying off. To date in 2008, systemwide sales have increased 10 percent.

Culver’s is looking to continue that trend by extending its reach. Sampling vans, something Contino says the chain has been trying to do for years, are slotted for 2009, as are more Web and broadcast advertising.

An expansion of the Culverization branding campaign in 2009 will emphasize that the chain is not just a place for lunch or dinner (the two dayparts are equally strong for the chain, Contino says), but as a dessert after a dinner date or a post-school snack for the family.

The additional dayparts are an important part of the strategy as Culver’s enters its 25th year and plans to expand beyond 400 units. Explains Contino: “We can get extra transactions from current customers. They will help us get new guests as well. Sometimes we spend too much time and money trying to get new customers.” ■

New TV commercials show customers in a variety of scenarios being “Culverized,” the process of converting customers into fans of the chain.

Culverisms, platitudes that summarize Culver's attitude, have made their way onto in-store materials and packaging such take-out bags and cups.

What's in a NAME

Sandella's sweet and spicy **BRAZILIAN CHICKEN GRILLED FLATBREAD** had the sauce to be a hit, but it needed a new name.

SNAPSHOT

Concept Sandella's Flatbread Café

Headquarters Redding, Conn.

Units 140

2008 Systemwide Sales $85 million*

Average Unit Volume $650,000

Average Check $8.50

Expansion Plans 10 in 2008, 40 in 2009

**Chain Leader* estimate

Sandella's Brazilian Chicken Grilled Flatbread features a textured sauce of toasted yellow mustard seed, North African sweet cayenne pepper, black pepper and other spices brushed on the crust.

Representing 75 percent of all grilled flatbread sales and 15 percent of the total menu mix, the Brazilian Chicken Grilled Flatbread at Redding, Conn.-based Sandella's Flatbread Café is a smash hit with guests. The $6.99 flatbread features a textured sauce of toasted yellow mustard seed, North African sweet cayenne pepper, black pepper and other spices brushed on the crust, topped with grilled chicken-breast pieces and mozzarella. The sauce on the flatbread is so popular, 140-unit Sandella's is also using it in dried form as the seasoning for the bagged flatbread chips it launched in November.

But getting the flatbread off the ground took several significant tweaks. First tested last fall as Sandella's Sweet and Spicy Mustard Flatbread, the pizza-like product "got a pretty chilly response initially," says Mike Stimola, CEO of the fast-casual chain. Trial went so badly, "we really hemmed and hawed about moving forward," he says. "Something about that name just conjured up the wrong associations in people's minds."

About a month into the test, Sandella's changed the flatbread's name to Brazilian Chicken Grilled Flatbread, thinking the ingredient combination tasted Brazilian. It started aggressively sampling just after. "The results were amazing," Stimola boasts.

TRY IT, YOU'LL LIKE IT

Within a week of the name change, sales of the flatbread pizza went up 25 percent. "And once we started handing out samples to guests waiting in line to order, sales doubled," says Stimola.

"The key with this product has been sampling it," he explains. "We found that sampling the product for the first two to three weeks of launch while people were waiting in line meant that the majority would order that product once they got to the register."

After concluding limited store tests that ran through the first quarter of 2008, Sandella's rolled systemwide with the product in August.

The sauce is a crucial component of the product. A vendor makes the sauce seasoning mix and then ships it to units as a dry rub. Unit employees reconstitute the mix with water to the consistency of molasses and then brush it onto crusts before topping with cheese and chicken and baking in fast-cook ovens.

PRODUCT EXTENSION

Because the sweet-and-spicy flavor profile of the seasoning has been so popular with guests, Sandella's decided to use it for its launch of baked flatbread chips, which are baked, seasoned and bagged at the manufacturer. The $1.49, 2-ounce bags of chips have been distributed to 100 units since November.

New products are added to Sandella's menu eight times a year. Sales are "pretty evenly distributed" among four entree categories: wraps, grilled flatbreads, quesadillas and paninis, Stimola says.

He is not too surprised that an unusual sauce recipe is behind the success of the Brazilian Chicken Grilled Flatbread. "We're actually very sauce driven," he says. "As we travel around and do recipe development, it's usually the sauce that's the start for a new product." ■

BIG idea Sandella's gave customers samples of the Brazilian Chicken Grilled Flatbread and sales grew. "We found that sampling the product for the first two to three weeks of launch while people were waiting in line meant that the majority would order that product once they got to the register," says CEO Mike Stimola.

Daniel Barash, director of research and development at Moe's Southwest Grill, worked with the National Pork Producers Council while developing the product stuffed into the Pulled Pork Homewrecker burrito, Closetalker salad and Billy Barou nachos.

Filling HOLES

Moe's fills gaps in the the menu, **RUNNING WITH IDEAS** from a variety of sources.

SNAPSHOT

Concept Moe's Southwest Grill
Ownership Focus Brands, Atlanta
Units 400
2008 Systemwide Sales $360 million*
Average Unit Volume $900,000*
Average Check $8 to $10
Expansion Plans 6 by year-end, 49 in 2009
**Chain Leader* estimate*

Asked how he identifies gaps in the menu, Daniel Barash, director of research and development for Atlanta-based Moe's Southwest Grill, answers simply. Look at full service for trends. Examine Technomic and NPD Crest data. Identify other menus in your segment and see where you sit.

Sounds simple. Too simple. And once Barash gets talking, he says that opportunities reveal themselves all the time and that ideas come from all sides.

"Trying to be a creative chef, reading trade magazines, talking to other chefs, looking at other menus in all segments," he says, running down the list.

Looking beyond just Southwest or fast-casual, Moe's team watches casual dining, but with a realistic eye. "If we can do something that they're doing that's easily executable—because in our segment it's really about speed of service in anything—then we look at doing things as well."

HELP FROM FRIENDS

One source of inspiration comes from food associations such as the National Pork Producers Council. Moe's worked with the group when it was developing the grain-fed pulled pork that it rolled to the core menu in September. The pork marinates in a green-chile mixture and cooks for eight to 10 hours before being spooned into the Homewrecker burrito and other menu items.

Similarly, the Mushroom Council contacted Moe's about a year ago to build awareness about the seasonality of some mushrooms and what was currently available. At the time, the chain was about to test a Philly cheesesteak burrito and quesadilla. Moe's put mushrooms in the recipe and rolled it in about 40 stores. The product did well enough that it will run as a limited-time offer next year, according to Barash.

While the chain didn't take advantage of it at the time, the Mushroom Council and others like it offer marketing funds and help promoting items that use their products. Barash says Moe's might look to them for assistance with the LTO.

Barash expects a lot of innovation with product tests and LTOs next year. Tests usually run seven to nine weeks in about 40 stores. The best items are put on the LTO calendar, which calls for about two offerings a year.

DOING DINNER

He's eager to explore the snack category as well as dinner, a daypart not traditionally strong in fast casual. "If customers are trading down, they go to a Chili's or an Applebee's or something like that," Barash says. "We're going to try to take some of that business. We feel there's a huge opportunity, especially with the way the economy is, to bring people into a Moe's, and give them that great fajita platter and that great smothered burrito platter or enchilada platter at an affordable price."

Those items, however, are tricky to execute with the restaurants' current equipment lineup, which does not include an oven. Moe's is approaching the problem two ways. First, the development team might try deconstructing and rebuilding some items to work with the existing system. At the same time, R&D brought in an impingement oven and conveyor ovens to test new items.

"With technology, you can cook a frozen pizza in a minute and a half," he says. "We're in that segment where we can utilize some of that technology and hopefully pass that speed and great food along to our consumers."

If Moe's determines customer traffic and sales will justify adding a piece of equipment to the restaurants, it will test it in several stores throughout the country, backing up the franchisees with techical and marketing support. "If it's going to justify the sales, we'll bring the equipment in," Barash explains. "If not, then you're back to square one."

THE NEXT EGG MCMUFFIN?

Franchisees don't wait for headquarters to push them product tests and LTOs. At regional meetings and frequent conference calls, Moe's encourages them to send ideas and recipes. This year, for example, the chain tested a Buffalo chicken taco and quesadilla that one of the franchisees came up with, and Barash hopes to run it as an LTO next year. "It scored real well with consumers, it met our sales goals, and it's a great product," he says. "We're excited about that."

While ideas come from all over, Barash and his team don't test everything, recognizing they have a brand to protect. "We like to think of it as looking through Moe's colored glasses."

He points to the Philly cheesesteak test or the cheeeseburger tacos that are currently running as a test in the Birmingham, Ala., market. "We try to take products that people are familiar with and make it Southwestern, or take American food and Mexicanize it or take Mexican food and Americanize it. People tend to be drawn to that."

Barash says the team has also been working on seasonal salsas for the salsa bar, flatbreads and more he won't talk about. "We try to keep some of that under wraps," he says. "But we have a great lineup of things we're working on. We're going to show them to the franchise advisory council the first quarter of next year and hope to get some of these things in test right thereafter. So it's exciting." ■

Mind the Gap

In business, marketing, information technology and more, researchers often use a tool called gap analysis, which helps assess where the company is now, where it wants to be, and determine how to fill that gap. While the tool requires thorough analysis of customers, employees, competition, macro-environment and other benchmarks, it essentially asks, "What are we missing out on, and how do we fix it."

Menu developers and their marketing partners can take the heavy analytics route or examine the following areas for opportunities.

GAPS IN SERVICE: Do servers know the products, ingredients and where they came from? Can they explain to customers why it's a value or why it's worth the price? Do they understand the flavors and preparations?

GAPS IN GUESTS: Are there potential customers just beyond your target market dining nearby? Do moms drive by after dropping their kids off at school? Are groups of teenagers walking by in the afternoon? Do the businesspeople who come in for a quick lunch stop by to pick up dinner on their way home?

GAPS IN EQUIPMENT: Would a panini press or conveyor oven mean selling more high-margin sandwiches or a new flatbread pizza line? If you had another microwave oven, could you offer a greater variety of heated-to-order soups?

GAPS IN SELLING POINTS: Market what you offer beyond good food and service. Can you sell the family time, pleasant diversion from a hectic day, time savings, good people watching?

A new breakfast-catering program prompted Rising Roll Gourmet to build a **MORE EFFICIENT KITCHEN**.

Balanced BREAKFAST

Rising Roll Gourmet has always been "a catering company that offers in-store dining," says Mike Lassiter, president of the Atlanta-based sandwich-bakery concept.

In the next year or so, Lassiter expects catering sales, which account for approximately half of total volume, to surge, thanks to the company's new gourmet breakfast menu of sandwiches, burritos and platters. The September introduction of the menu forced Rising Roll to take a hard look at its kitchen, which was tailored to individual dine-in and takeout customers, not catering.

Not all of the 12 Rising Roll stores are open for breakfast, but all offer breakfast catering, says Lassiter, who purchased the 11-year-old concept from its founders, Jeff and Bob Weiss, in 2007. "We wanted to make sure we were able to produce our breakfast

Two sandwich presses were moved closer to the front of the house so sandwiches can be delivered hot to guests. Each press can toast three sandwiches at a time.

SNAPSHOT

Concept Rising Roll Gourmet
Location Sandy Springs, Ga.
Opening Day Oct. 6, 2008
Area 2,400 square feet
Seats 92
Per-Person Average $9
Unit Volume $750,000
Expansion Plans 6 or 7 units in the next 12 months

Rising Roll's new kitchen enables staff to make and pack catering orders without interfering with preparation of dine-in orders. Catering accounts for about half of total sales.

in the kitchen," plus make the kitchen more adept at handling catering orders, Lassiter says.

In October, Rising Roll Gourmet opened a prototype with a redesigned kitchen that addresses both issues. The kitchen, smaller than its predecessor by 10 percent, includes volume-friendly equipment such as an 18-foot, double-sided makeup table and sandwich presses capable of toasting three sandwiches at a time. As a result, through-put is 23 percent higher and ticket times are 25 percent faster.

The prototype is working so well that Lassiter plans to open versions of it in Cincinnati and Houston. He's also experimenting with an even smaller version, one that's 2,000 square feet and seats 52.

SAME SPACE, MORE STUFF

To create the new kitchen and a new, contemporary-looking dining room, Lassiter enlisted Bette Raburn, ASID, an Atlanta-based interior designer. Raburn and her husband, Jerry, are also Rising Roll franchisees who operate two stores: the prototype and their first location, a 2,400-square-foot, 50-seat location near the Atlanta airport.

At 2,600 square feet, the prototype is larger, but the extra space was devoted to the dining room, which now seats 92. The suburban Atlanta location, near several major hospitals and the headquarters of two major firms, needed more seats to accommodate customer traffic.

To make the smaller back of the house more efficient, Bette Raburn divided the kitchen, previously a jumble of activities, into four distinct work zones: baking, for proofing and baking breads and sweets, which are delivered to the store in dough form; a grill/range area for preparing foods including housemade chicken, pasta, egg and tuna salads; a catering area for assembling orders; and a cold storage/prep area for assembling sandwiches.

The result is smoother traffic and work flow. "Everybody's not on top of each other," Raburn says.

The kitchen has two focal pieces of equipment: A 10-burner range and an 18-foot, two-sided prep table equipped with cold wells. The range is partly responsible for higher production—it has four more burners than the ranges in the older stores.

The prep table is new to the kitchen but not to the concept. A smaller prep table was located in the ordering area, where sandwiches were made to order as customers watched. Relocating it to the kitchen allows catering orders to be prepared on one side and dine-in orders on the other.

"The prep table is a huge catering station," Lassiter says. "In previous designs, catering was sporadic," he adds. "Now it's in a centralized location."

Two electric sandwich presses, used for panini and to toast breakfast burritos, were relocated to the front of the house from the kitchen. That way sandwiches for dine-in and takeout customers can be pressed and served hot, Raburn says. Even though each grill can press three items at once, the store probably needs a third grill, she adds.

The only new piece of equipment is a warming oven that holds ingredients for breakfast sandwiches, which are made to order.

SPARED EXPENSES

To save money in the long run, Raburn specified several green touches such as an on-demand water heater, whose exterior location saves 45 square feet of kitchen space; accelerator hand-dryers; and programmable thermostats.

Overall, the prototype's cost, about $150,000 to $200,000 per store, is the same as the previous design, due to high construction and materials costs, Lassiter says.

Still, the smaller footprint will save franchisees money in lease costs. The newer stores are 400

A line of hot breakfast sandwiches (opposite), introduced this fall, boosted catering and gave Rising Roll a need for a new kitchen. The chain upgraded its coffee equipment when it added the sandwiches.

One value-engineering step: replacing a 6-foot grab-and-go case with a 3-foot model. The smaller case is more energy efficient and makes product look better.

Photography by Getty Images/Greg Campbell

BIG idea To save money in the long run, Rising Roll specified several green touches such as an on-demand water heater, whose exterior location saves 45 square feet of kitchen space; accelerator hand-dryers; and programmable thermostats.

Rising Roll's prototype includes a new, more contemporary dining room as well as a retooled kitchen. The dining room's richer colors and finishes complement the concept's upscale product, says President Mike Lassiter.

square feet smaller, which, with average rents about $40 per square foot per year, could mean a $16,000 savings in rent.

Saving franchisees money in this market is key, says Mark Siebert, CEO of iFranchise Group, a Homewood, Ill.-based franchise consulting firm. "You want to do everything you can to reduce the size of the initial investment and operational overhead," Siebert says, adding that he counsels clients to reduce their concepts' footprint if it can be done without sacrificing product and service quality.

ROOM FOR IMPROVEMENT

As efficiently as the building was planned, Lassiter says there is room for value engineering. To start, he's asked Rising Roll's equipment suppliers to offer lower-cost alternatives to every piece of equipment in the kitchen.

So far, he's identified kitchen shelving as an area where a less expensive version will work as well as a top-of-the-line model. Lassiter has also replaced a 6-foot grab-and-go display case in the dining room with a 3-foot model. The smaller case shows off product better, uses less energy and takes up less space.

The Raburns, too, see some room for improvement. The kitchen, Bette Raburn says, needs more storage for catering boxes, packaging and dry goods such as potato chips. Because the kitchen is so tightly designed, additional shelving will be built above current work stations. "Everyone we hire from now on will be 6-5," Jerry Raburn jokes.

Otherwise, "I'd say we're 90 percent happy," he says. ■

Rising Roll added 200 square feet to its footprint but subtracted 10 percent from the kitchen.

KEY
Direction of shot
1 — 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.

With predictions from a cadre of experts, *Chain Leader* presents the **PEOPLE, PLACES AND TRENDS** that will shape the chain-restaurant industry in 2009.

What Lay AHEAD

Chain Leader is proud to present our guide to the year 2009. We've done our best to peek ahead into the next 365 days and now want to share what we discovered so that you can prepare yourself to take advantage of significant industry trends—or at least understand that which they portend for your business.

Of course, no one has perfect insight as to the extent the economic crisis will plague restaurants in 2009. It's only safe to say that consumers will continue to trim visits as long as housing values decline and jobs continue to disappear. Be that as it may, our intrepid crew of prognosticators has done their best to predict the shape

of the coming restaurant landscape. To be sure, you'll find plenty to worry about. But you'll also find ideas for taking the lead.

Don't you feel better already about 2009?

THE ECONOMY

"Depending on how this fourth quarter unfolds, this could easily be the most challenging economic environment since the early 1980s," says the National Restaurant Association's Hudson Riehle, senior vice president, research and information services group.

The severe downturn already has forced restaurants to shed jobs—some 36,000 in all—for the last four months in a row. "It's the first time that has happened in more than 40 years," says Riehle, adding that more than 40 percent of operators now deem the economy their biggest worry.

There is a silver lining of sorts amid the bad news. In NRA surveys of pent-up demand, he adds, one out of three adults say they are not using restaurants and takeout as much as they would like to. "However, extreme consumer anxiety and a lack of cash on hand has really torpedoed traditional restaurant patronage patterns," Riehle concedes.

When does he expect the situation to turn around? "Looking ahead to '09, there is no immediate relief to this environment," he says.

Visitors to chainleader.com are more optimistic. Asked "When will the economy normalize," 77 percent responded it would by the end of 2009.

WHITHER PRIVATE EQUITY?

Private-equity investments in the United States climbed to $429 billion in 2006 from $29.5 billion in 2001. After reaching $424.5 billion in 2007, investors applied the brakes as the economy tanked and credit sources tightened. Heading into 2009, investors continue to wait on the sidelines.

Mark Saltzgaber, a financial strategist and restaurant investor in San Francisco, expects few private-equity deals for restaurants next year as "sellers come to grips with the new world order and buyers lick their wounds." He also predicts that the deals that do get done will involve troubled restaurant companies and that buyers who pay the right price

Private-Equity Investments in U.S. Companies

Year	Value ($ millions)	Deals
2001	29,540.2	460
2002	48,210.7	507
2003	49,724.0	694
2004	104,587.3	986
2005	146,575.5	1,213
2006	428,839.2	1,539
2007	424,510.7	1,701
2008*	72,734.5	1,127

*Source: Thomson Reuters; *year to date as of Nov. 13*

Franchising Woes

The financial crisis will continue to hamper franchisors in big—and not always friendly—ways, according to franchise consultant Frank Steed. As a prime example, he cites DineEquity's debt obligations in the face of flagging sales after the purchase of heavily franchised Applebee's. Kearns, Texas-based Steed, a former president of Ponderosa/Bonanza, declines to predict which franchised chains will flame out by the end of '09, but he says to watch for "sweeping changes" to brands that no longer have a point of difference. Well-differentiated franchisors, on the other hand, will remain competitive, he adds, particularly those with restaurants in less competitive markets.

He'll be watching Beef 'O' Brady's, a Tampa, Fla.-based family sports-pub chain boasting 261 units in 21 states that Steed believes is well-positioned. "Beef 'O' Brady's has continued to grow its system this year with 40-plus openings and looks to continue more growth in 2009 with 30 deals already concluded," he says.

There will also be an influx of qualified fresh blood. "Executives from other industries that are not faring well are being attracted to franchising, and restaurants have always been viewed as a great business to own," Steed says.

Borrowing capital will continue to be an issue for some franchisees given tight credit markets. While Domino's isn't yet financing new franchisees, the Ann Arbor, Mich.-based pizza giant announced it intends to loan its best franchisees the necessary capital to buy units from poorly performing franchises.

Sellers Market in San Francisco (opposite) claims its first two units ring up $1.5 million annually, making it a concept to watch. Using many organic ingredients, the fast-casual concept has won over customers by aggressively promoting its connection to local vendors that use sustainable methods.

Photo by Kingmond Young

"Next year's losers will be those who don't recognize the passing of the torch to Millennials."
—*Dennis Lombardi, executive vice president, WD Partners*

President-elect Barack Obama supports the Employee Free Choice Act, which simplifies union certification and could make restaurant chains vulnerable to collective bargaining.

According to a survey by WD Partners, Millennials visit restaurants 40 percent more often than baby boomers. So chains should target some of their marketing efforts to Gen Y in the coming year.

for quality or distressed chains will reap rewards when the financial markets turn around.

Saltzgaber reminds sellers that private-equity firms are still looking at restaurant companies. But sellers must adjust expectations accordingly. "Prices have plummeted, though I don't see trough valuations sinking to past levels given the amount of capital on the sidelines," he says.

HOUR-SHAVING

Continuing economic woes next year will sorely tempt some multiunit general managers to make employees work off the clock, a practice dubbed "hour-shaving," predicts attorney Bruce Burkholder of Wiles, Boyle, Burkholder & Bringardner Co., a Columbus, Ohio-based firm that has represented restaurants in employee wage disputes. "When the market started going up and down, chains started asking: How can we cut costs? One of the natural things to do is to cut labor," he says. Ordered to do so, managers may invite workers to remain at work after clocking out.

Doing so, however, is extremely risky. Hour-shaving could end up costing the chain far more money than saved in labor costs. "It is hard for me to imagine that paying the incremental difference for hours put in could ever come close to actual cost to defending that kind of action," Burkholder explains, particularly if the plaintiff's attorney wins a discovery motion. "The employees could say [hour-shaving] started two years ago. Even the labor cost of that time frame is still less than what your exposure will be in a lawsuit."

UNION THREATS

A video clip on YouTube shows then-presidential candidate Barack Obama pledging to members of the labor union UNITE HERE he will make the Employee Free Choice Act, or card check, the law of the land. Card check is a union-backed streamlining measure awaiting Senate passage. Enactment would mean that if a majority of nonunion employees petition for union representation by signing cards ("valid authorizations"), they would likely be certified as a union by the National Labor Relations Board, without a vote of all employees necessary. It could force employers to bargain collectively with their employees as early as 2009.

Industry lobbyist Rick Berman of Berman and Company warns that chains of all stripes, including franchisees, are vulnerable. Although the House passed the bill in 2007, largely along party lines, it received only 51 of the 60 Senate votes necessary to pass. It could be a different story in the next session of Congress given Democratic Senate gains in the last election. Still, the Employee Free Choice Act is likely to come up again for a vote in the next session of Congress.

THE MILLENNIALS

"Everyone thinks boomers are still where it's at," declares Dennis Lombardi, executive vice president of foodservice strategies at WD Partners. His firm begs to differ. The Columbus, Ohio-based consultancy recently surveyed 7,000 people born between 1980 and 2000, a group often referred to as Millennials, and discovered they visit restaurants of all stripes 40 percent more often than boomers. Lombardi predicts next year's losers will be those who don't recognize "the passing of the torch to the Millennials."

WD's research also showed Millennials are three times as likely as boomers to visit a restaurant's Web site. They use and contribute to online opinion sites like Yelp.com, Lombardi adds. Among Millennials preferences are restaurants featuring:

- WiFi
- Extensive wine and beer selections
- A commitment to going green
- Late-night dining options

Research demonstrated that Chipotle, Applebee's and Subway are attractive to Millennials, all for different reasons, Lombardi says. He advises that restaurants answer the following questions before marketing to Millennials:

- How does the brand relate or not relate to Millennials given the occasion?
- How often does the brand attract Millennials?
- What can you do to change the brand without alienating core customers?
- What do you stand for, and will Millennials believe it?

BETTER BURGERS

Next year will likely see even more growth of the so-called better-burger category as cash-strapped diners continue to seek value, familiarity, nutrition and quality. New entrants plying this niche have won popularity by delivering all three, particularly the quality of the meat. Nearly every chain touts fresh beef, which many claim is naturally raised. Customization is also widely practiced. Los Angeles-based The Counter claims customers can build burgers 312,120 ways with its many toppings.

Financial adviser Paul Fields, who has consulted for The Counter, sees better-burger chains as an example of "vertical integration" within an already well-established category. "Now there's a high-end and health-conscious aspect to burgers," says the Bethesda, Md.-based consultant, adding that chicken, lamb and veggie burgers have helped boost guest frequency.

The emerging better-burger category includes concepts like The Counter (above) and Burger Lounge (below l.), which tout fresh beef and customization.

Better Burgers: A SELECT CHECKLIST

Brand	Outposts	Burger Boast
Five Guys Burgers and Fries	300+	U.S. beef
Fatburger	84	100% USDA beef
Burgerville	38	vegetarian-fed, antibiotic-free beef
The Habit Burger Grill	23	100% lean ground beef
The Counter	15	humanely raised certified Angus
EVOS	11	naturally raised beef
Smashburger	7	certified Angus
Mooyah Burgers & Fries	4	lean, American beef
Burger Lounge	3	grass-fed beef
Patty Burger	2	100% pure Angus
Amanda's Feel Good Fresh Food	1	naturally raised beef
Elevation Burger	1	organic, grass-fed beef

Source: Company Web sites

Photo by Kingmond Young

Sellers Market plays up its eco-friendly branding by displaying fresh products.

Amanda West says the movie ***Super Size Me***, the book ***Fast Food Nation*** and dining at Chez Panisse inspired her to create Amanda's Feel Good Fresh Food, a health-oriented concept. She plans to have "multiple units in the Bay Area" within the next five years.

Sellers Market claims it buys from more local, sustainable vendors than any fast-casual chain in the country.

What will it take to stand out next year? "Really good beef is now a given," Fields says, "so it has to be the total package—a hip, happening atmosphere with a certain *je ne sais quoi*."

ORGANICS

We're keeping an eye on restaurants going green next year given that so doing (at least with believability) is a tall order due to the amount of energy consumed and waste produced by restaurants. Yet adding organic and locally produced foods to your menu offers a way to take advantage of this important trend. The Organic Trade Association reports U.S. sales of organic food and beverages have grown from $1 billion in 1990 to about $20 billion in 2007, and are projected to reach nearly $23.6 billion in 2008.

Consider Sellers Market, a three-unit, fast-casual operation with a menu focused exclusively on local, sustainable and organic foods in San Francisco. The concept's Web site boasts: "Our eco-friendly, straight-from-the-earth food will sing you a song about the people it's met, the local growers who nurtured it, the craftsmen who took it by the hand and turned it into something special."

Owners Jim and Deb Sellers claim they buy from more local, sustainable vendors than any fast-casual chain in the country. They account for 90 percent of the company's purchases. "We think it's the right thing to do," Deb Sellers says, adding also that the three units compost roughly 70,000 pounds of food scraps annually and use reclaimed wood for tables.

The couple modeled their business on Panera Bread, Chipotle and Corner Bakery. Today, with volumes averaging $1.5 million and a check average of $10, they claim net profitability exceeds Panera's. Declares Jim Sellers: "Customers are responding well to a concept that is blurring the lines between fast food and fine-dining quality." ■

BIG idea Franchise consultant Frank Steed advises franchisors wanting to attract potential franchisees to look to the restaurant industry itself. "A lot of laid-off middle-management types are now looking at the prospect of becoming GMs when they could be their own boss with a franchise," he says.

on the web: Find out how upstart Burger Lounge is generating $1,100 per square foot selling grass-fed burgers. Visit ***www.chainleader.com.***

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Keeping TRACK

RFID TECHNOLOGY lets Blue C Sushi chefs know when to discard unsold sushi and when to make extra orders.

SNAPSHOT

Concept Blue C Sushi
Ownership Madison Holdings, Seattle
Units 4
2008 Systemwide Sales $4.8 million*
Average Unit Volume $1.5 million*
Average Check $13 to $15
Expansion Plans 3 by mid-2010
**Chain Leader* estimate*

The plates at the four Blue C Sushi restaurants in Seattle are both visibly and not-so-visibly different than most restaurant plates: visible, in that colored bands indicate the price of the sushi sitting upon them, and not so, in the form of small RFID tags affixed to the underside of each plate.

The RFID tags, scanned by a reader beneath the conveyor belt, serve several purposes. They enable sushi chefs to pull plates off the belt when they are past their sell-by time. They let each restaurant track sales of sushi, meaning chefs can increase or decrease production as demand dictates. Both benefits lead to a third: control of food waste, and therefore food cost.

RFID, or radio frequency identification, technology is “a real operational advantage” for its high business utility and its relative invisibility to customers, says Blue C Sushi co-founder James

BIG idea Blue C Sushi plans to expand RFID use with handheld mobile scanners that will let servers calculate the bill by scanning each sushi plate tableside.

Allard. "It gives us the opportunity to provide them what they want, when they want it," Allard says. "It's not customer-facing unless customers know what to look for." Because Seattle is such a high-tech town, plenty do: "Servers have to understand [the technology] because we get questions about it," Allard says.

COST EFFECTIVE

The technology makes sense, given Blue C's service model. Customers are seated around the conveyor belt, which moves plates of sushi ($1.50 to $5.25 plate) and Japanese side dishes such as gomae (cold spinach with sesame sauce). Servers take orders for drinks and "non-belt" items such as miso soup and frozen desserts, while customers take the plates they want from the conveyor belt. The colored plate bands help servers tally the checks.

Allard and his business partner, Steve Rosen, wanted to use RFID technology when they opened the first Blue C, in Seattle's University Village CK neighborhood, in 2003. However, the cost of the technology back then was prohibitive; the RFID tags alone cost $3 to $8 each. The duo settled instead for a bar-coding system that performed the task of keeping track of sushi items, but that's about it. "It didn't provide any business intelligence at all," Allard says.

He and Rosen revisited RFID in late 2006 during a conversation with Microsoft about that company's BizTalk platform. Allard says Microsoft didn't understand how RFID could be used in a sushi restaurant, until executives from the Redmond, Wash.-based software giant had lunch at Blue C Sushi.

The two used Microsoft software, hardware from Everett, Wash.-based Intermec and a proprietary program written by Seattle-based Kikata, which had also written the bar-code program for Blue C. The process, including assigning codes to each dish and installing four kitchen monitors, RFID antennas and an RFID reader on the conveyor belt, took five or six months, Allard explains.

The RFID program cost $100,000 to install at the first Blue C. Subsequent stores cost $50,000 each because of the descending prices for the technology. Due to the savings in food costs, the return on the investment for the equipment is less than a year, Allard says.

(Opposite) Blue C Sushi chefs "commission" plates, or enter them into the RFID system, before placing them on the conveyor belt.

The RFID system cost $100,000 to install at the first Blue C unit and $50,000 per store after that.

While Seattle health codes permit sushi to stay on the conveyor belt for four hours, Blue C pulls unsold sushi after an hour.

A SMOOTH ROLLOUT

The rollout was smooth, with only minor adjustments. One involved the "commissioning" of the plates, or making sure the plated sushi was entered into the system before it was put on the conveyor belt. The program began with each sushi station receiving the entire commissioning menu; it was adjusted so the primary screens showed only the sushi made at each station.

The trickiest part, Allard says, was getting employees to adopt the new technology. "Many have been sushi chefs for 20 years, and they have a set way of doing things," which does not include the extra step of plugging RFID numbers into a computer, Allard says. "They'd look at us quizzically and say, 'why are we doing this?'" Even after explaining the business benefits of the system, it took the kitchen two months to "get people really committed," he says.

The local health department was an easier sell. "The thing they like about it is that it's visual for them," Allard says. Instead of relying on a chef's word that a sushi plate was placed on the belt and pulled from it at a particular time, inspectors need only to refer to the RFID reader printout. It also helps that while the health department permits sushi to sit on the belt for four hours, Blue C chefs pull unsold items after only an hour.

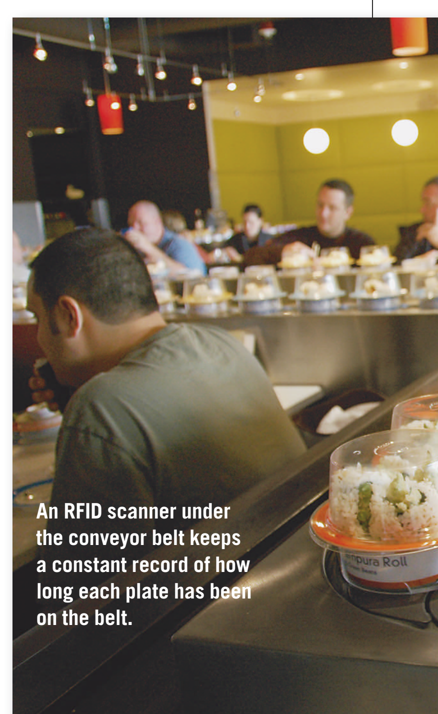
Kikata trained one employee in each Blue C restaurant to add

Data on what kinds of sushi people eat, and at which daypart, has enabled Blue C Sushi chefs to tailor production and cut food costs by 2.4 percent.

to or delete menu items from the system. The chain sometimes asks for help adding features such as data reports. And, "if a chef accidentally unplugs something, we support them," says Todd Emerson, Kikata principal and founder.

ONGOING BENEFITS

Now into its second year with the system, Blue C is reaping benefits and discovering new ones. Food costs are down about 2.4 percent. Before the system was installed, "we didn't have a sense of what to make or not," Allard says. "Now we know, because we have a history of demand." That history also leads to less food



An RFID scanner under the conveyor belt keeps a constant record of how long each plate has been on the belt.

Blue C Sushi chefs needed about two months to get used to the extra step of entering dishes into the RFID system.

on the web: Cincinnati-based Buffalo Wings & Rings has packed its new training center with technology including a kitchen-display system and surveillance cameras that broadcast training sessions. Visit **www.chainleader.com.**

waste because chefs are yanking and discarding less uneaten sushi.

Allard says data from the system is revealing another interesting food fact: seasonal demand for certain kinds of seafood. "There seems to be heightened demand for certain fish in the summer," he says, though he will not elaborate. That demand will change the kitchen's sushi-making schedule and most likely the company's seafood-buying patterns as well. For the time being, Blue C is retaining all the data the system collects to spot trends such as seasonal demand.

Allard says the concept plans to expand RFID use with handheld mobile scanners that will let servers calculate the bill by scanning each sushi plate tableside. The software is ready, but the POS system needs to be updated, Emerson says.

Scanning the plates will render their colored bands obsolete. But the plates, which take their colors from those of the Toyko subway system lines, aren't going anywhere. They're too integral a part of the Blue C Sushi concept, says Corey Beebe, manager of the 72-seat University Village location.

"The plates give people a different kind of dining—more innovative dining," he says. ■

by maya norris

Church's Chicken **SETS UP SHOP IN INDIA** to reach a growing middle class and younger population.

Passage to INDIA

India appears to be the land of opportunity for Atlanta-based Church's Chicken. The quick-service restaurant chain, which has 1,650 units in 20 countries, opened its first franchised store in Hyderabad, India, in September. CEO Harsha Agadi spoke to *Chain Leader* about why the second most populous country in the world is fertile ground for expanding the brand, which is known as Texas Chicken in Asia and Europe.

What makes India a lucrative market for Church's Chicken?

India has 1.1 billion people. That is one-sixth of all humanity. And Indians traditionally consume the largest quantity of fried food, believe it or not. Even more than the Americans, the Chinese, the Brazilians. And chicken is the No. 1 protein of any meat in India. And fried chicken is a natural food item for Indians. Therefore our product, our spice level, our pricing strategy is made for India.

Why did you decide to enter India as opposed to China, which is the fastest-growing economy in the world?

The world is in a recession as we speak. And despite all of that, China is still growing at about 9 percent, which is slower than it used to be but still very fast compared to the rest of the world. And India is slightly behind at 7.5 percent in terms GNP growth.

Now the reason we chose India vs. China is the following: The first is our competitive environment. China has over 2,000 KFCs. India has at best 50 KFCs. So we've chosen to be more competitive against our competition in India vs. China.

Second, the consumption of the middle class in India is much bigger than the middle class in China even though Chinese overall consumption is obviously bigger than India.

The other is, India's population is at least 10 years younger than China's population, which means we're getting there earlier and therefore becoming a part of the younger generation's diet when they're 17, 18, 15 as opposed to 25, 28 years old.

Will you eventually go into China?

Any company that wants to be global, which our intention is, it's critical to be successful in both countries at the end of the day—India and China.…We will probably end up opening in China…in 2010.

What adjustments did you make to the concept to adapt to the local customs and tastes in India?

Half of the Indian population eats only vegetarian. They do not eat meat.

Having said that, the first thing that American fast food has to be very cognizant in a country like India is cultural sensitivity in how you build the menu as well as the store itself. This is the only place in the world we have separate vegetarian and nonvegetarian kitchens. So a fryer that's being used to fry chicken will not be used to fry french fries, as an example.

We do have an Indianized menu. So we have our main thrust that does not change, which is Southern-style fried chicken made in the USA, if you will, in terms of brand positioning. That doesn't change, but our sides change and even our sandwiches and the flavoring of the sandwiches change quite a bit.

On our menu, here what you call a chicken sandwich is called a chicken burger in India. Another example would be the herb chili burger, which is very popular among vegetarians. The Mexican burger is very

SNAPSHOT

Concept Church's Chicken
Headquarters Atlanta
Units 1,650
2008 Systemwide Sales $1.2 billion (company estimate)
Average Unit Volume $695,000
Average Check $7.50
Expansion Plans 300 stores in the next 10 years in India

popular among meat eaters. It is a chicken patty that has the nacho chips on it, then topped with salsa and lettuce.

One of the sides that is very unique—and we happen to be the only American fast food in India selling this side item, which neither McDonald's nor KFC have—is paneer strips. Paneer strips is homemade cheese created in slabs, cut and then fried in the commissary. It's par-fried and then transported to the store where it's completely fried. We have a commissary system in India, where the commissary prepares food on a real-time basis and delivers to the stores.

A complete meal in India is considered not just to have chicken or fried chicken, but in addition to that they're looking for Indian bread, which we call a roti, as well as a lentil-based soup called dahl. It is very necessary to have a platter or meal concept for Indians where just eating a chicken sandwich or bone-in chicken is not a complete meal. You've got to have a bread accompaniment as well as a lentil-based soup accompaniment.

The other thing that Indians are obviously known for are spices. India consumes the largest amount of spices as well as spicy food in the world. Our spicy chicken, our spicy flavor in the chicken, is a very, very big hit. We have literally doubled the level of spiciness in our chicken in India compared to the U.S.

Does your main customer demographic differ in India from the United States?

In India it is much more mainstream. It is much more what we call the B market, which is middle class to upper-middle class, but not necessarily the richest, not necessarily the poorest. Generally on the younger side. And we continue to focus and go after families, which is again a little bit more unique with our positioning. Not unique to Church's or Texas Chicken, as we call ourselves in India, but it is unique in terms of American fast food, which generally focuses on the single person in India.

What's the biggest challenge of opening and operating in India?

Selecting the right franchisee is very critical in India as well as in countries like China. You're only as successful as the partner you select locally.

The other is definitely thinking through the cultural sensitivities in terms of the kitchen as well as the menu.

And finally, emphasizing heavily on training, which is very, very important because Indians go into action, generally speaking, as fast as they can. We actually have to slow them down and say investment in training is critical. We need to do that to get the staff trained and ready to go before we launch.

The store has only been open a little over a month. How has it been doing?

It has first of all exceeded expectations. Sales are very strong. We had our grand opening day on Sept. 11, and it was pouring heavily. What really astounded me a little bit was the number of customers who were already lined up way before the store even opened. And despite the pouring rain, the activity and the buzz and the interest level was very high.

What's the potential for Church's Chicken in India in terms of expansion?

We're looking at approximately 300 stores in the first 10 years. And this is a very unique country like China and that is, India will add at least 100 million new customers to the middle class every five years for the next 20 years. So the market's going to be growing rapidly. ■

CEO Harsha Agadi (opposite) was on hand when Church's Chicken opened in Hyderabad, India, on Sept. 11. In Europe and Asia, the brand is known as Texas Chicken.

Church's signature Southern fried chicken will remain on the menu in India, but the company has developed several new items such as paneer strips (fried cheese slabs) and has increased the spiciness of its chicken to accommodate local tastes.

screen TEST

Marco's Pizza enhances its training program with an **ONLINE, INTERACTIVE, ANIMATION**-based component.

Marco's Pizza has turned to the Internet to take its training program to the next level. The 171-unit pizza delivery and takeout chain is rolling a Web-based, interactive training tool that features animation to better connect with younger workers.

Working with a company that specializes in e-training, Toledo, Ohio-based Marco's Pizza spent two years developing the online training component, known as Marco's University, for hourly employees. The company contends the online program will help ensure consistency across the system as franchisees open more than 300 units by 2010.

"Often, with anybody in the store-operations end, training can vary depending on the trainer," says Vice President of Sales, Research and Development Mike Jaynes. "With Marco's University, it really standardizes and communicates the same message across the board to not only the whole chain but also within the store. And the communication of one message results in happier employees because they're all expected to do the same thing."

To cater training to younger workers, Marco's Pizza developed Marco's University, an online, interactive training system that features animation. The system consists of 12 modules covering topics such as orientation and answering phones.

BACK TO SCHOOL

Marco's University consists of 12 modules that cover topics such as customer service, phone answering, dough preparation, store safety and delivery. The interactive modules, each about 10 to 12 minutes long, feature animated characters that guide employees through the tasks involved in each position. The character tests the employees on the information, correcting them if they answer incorrectly. The employee must score at least 80 percent on the quiz at the end of the module to move on to on-the-job training in the store. If they don't score 80 percent, they have to take the module again.

Employees log into a password-protected Web site that keeps a record of the modules they've completed and their

SNAPSHOT

Concept Marco's Pizza
Headquarters Toledo, Ohio
Units 171
2008 Systemwide Sales $90 million (company estimate)
Average Unit Volume $607,000
Average Check $16.75
Expansion Plans 12 in 2008, 67 in 2009

scores. Most employees can only access Marco's University from a computer at the store. But the company allows employees at new stores to access the program from their homes for two weeks prior to and four weeks after opening.

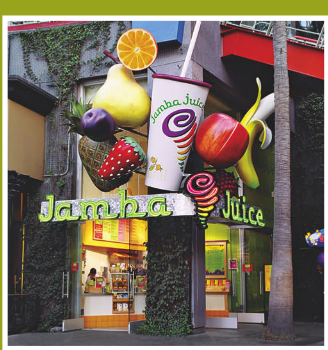
According to Jaynes, Marco's has received positive feedback from hourly employees about Marco's University. He says the online component resonates with its younger work force, who are comfortable with the technology. "Most of our work force have grown up on computers, whether it be MySpace, cell phones or Internet games," he says. "The Web-based training really appeals to what they grew up with. It allows them to learn by listening, watching, while being interactive through the whole module."

Eric Chester, a Denver-based speaker and author who works with service-oriented companies to get young employees to work harder and stay longer, says Marco's University should help the company better relate to teens because the interactive, animation-based training is fun, simple, fast and easy to use.

"It's miles beyond handing them any kind of manual or a book. It's certainly appeals to the tech-savvy generation. It's something that pulls them in," he says.

Marco's Pizza designed the online training system to be used in conjunction with on-the-job training.

Portable Training: Jamba Juice Tests iPods



It was only a matter of time before the ubiquitous iPod made its way into Jamba Juice's training regimen. After all, many of its young hourly employees already use it. But after testing the portable video device this past summer, the Emeryville, Calif.-based smoothie chain is not sure whether the iPod will be a permanent fixture in its training program.

Jamba Juice tested video iPods in June for about eight weeks in eight stores in San Francisco. The test centered on a promotion in which customers purchasing smoothies could buy a baked good for a dollar. The employees watched the training video, which showed them how to upsell the promotion, on the iPod.

Jamba Juice considered the iPod to be an ideal vehicle for training. The company's young work force was already familiar with it. In addition, because there is only one computer in each store, it wasn't always easy for employees to watch training videos housed on the company's intranet. So the iPod allowed employees to watch the five-minute video at their convenience.

After testing the iPods, Jamba Juice found training time was shortened. Previously managers spent 30 minutes to an hour training employees on the new promotion. With the iPod, employees watched the five-minute video. Then the manager asked them three questions about the promotion and observed them during their shift, correcting them if needed.

Another benefit was that the stores with the iPods sold 2 to 3 percent more smoothies with baked goods than the stores that didn't use the iPods.

Despite the success of the test, Jamba Juice is not sure if it will continue to use the iPods. The company is concerned about the iPods getting lost or stolen, even though it didn't lose any during the test. Because Jamba is upgrading its technology infrastructure this year, it is looking into whether it should add another computer to each store rather than buying several iPods, which cost about $250 each.

"We're costing that out now," says Kevin Peterson, senior manager of learning and development. "Because we can use [the extra computer] for a lot of other things that an iPod can't be used for like systems training."

Marco's plans to develop modules for franchisee and management training.

Marco's says its online training component will be vital to ensuring consistency of products and service across the system, especially as the chain triples in size by 2010.

Each module, which is about 10 to 12 minutes, has animated characters guide trainees through the tasks involved in each position.

"They're required to participate, take some action, to move the ball down the field."

However, Jaynes emphasizes that Marco's University is designed to be used in conjunction with the company's on-the-job training. "The Web-based training is in no way intended to change or alter our current training practice," he says. "It's only an enhancement to our current training practice. It's not meant to replace anything."

RETURN ON INVESTMENT

Marco's has tested the online training program in 27 company-managed stores and 13 franchised units since January. So far hourly turnover has gone down 3.9 percent and mystery-shopper scores on phone etiquette and ordering have improved 5 percent.

The company is currently rolling out Marco's University systemwide. It wants all the stores using the component by the end of February 2009. Although new restaurants are required to use Marco's University, it is not mandatory for existing franchisees. To convince older franchisees to sign on, Marco's executives, along with franchise and area representatives, are visiting the stores to demonstrate the system and share early results and testimonials from franchisees who are using it.

Franchisees who use Marco's University pay $365 per year per location. Corporate will use the funds to update current modules and develop future ones.

Marco's plans to develop one or two new modules per year. It is looking into developing modules for management that cover areas such as scheduling and paperwork and for franchisees for a new store opening.

It costs about $20,000 to create a module. Marco's also pays $140 per month to the training company it works with to host the modules on the training company's Web site.

Marco's has already invested more than $250,000 into Marco's University. But the company has no doubt it will see a long-term return on its investment, especially as it triples in size over the next few years.

"We need something to help ensure that consistency as we grow. Marco's University will help ensure that," Jaynes says. "Though it's difficult to actually quantify the amount of what that will actually make us, I think it's pretty obvious that it will reward us significantly." ■

on the web: Zaxby's combines traditional and new training methods to create what it calls Learning 2.0. Read about it at ***www.chainleader.com.***

BIG idea Marco's Pizza chose an online, interactive training system that uses animation not only because it is fun for young workers, but also because an animation-based system is easier and less expensive to update than live-action video.

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Chain Leader LIVE turned up **GOOD IDEAS FOR OPERATING** in a tough economy.

SUCCESS STORIES

Despite a sputtering economy, those who addressed restaurant operators attending *Chain Leader LIVE* in Atlanta, Oct. 28-30, were scarcely somber about business.

Some, in fact, were downright funny.

Take John Krings, chief operating officer for E&G Franchise Systems, the Eau Claire, Wis.-based franchisor of Erbert & Gerbert's Subs & Clubs, and Doug Thielan, manager of nontraditional marketing for Qdoba Mexican Grill. Both got laughs on the first day when they showed viral marketing efforts aimed at enhancing relationships with tech-savvy Millennials.

Key to Qdoba's humor involved bipartisan presidential politics. Thielan and a street crew interviewed people attending the Democratic and Republican national conventions, passed out T-shirts and asked them to explain why their favorite

Qdoba product matched up to the presidential candidate they supported. The videos show some people proclaiming nachos for Barack Obama while others declaring burritos for John McCain. The videos became the basis for a Web site program called "Taste Bud Politics."

Silliness was also central to Erbert & Gerbert's marketing effort. Krings showed a video celebrating the chain's 20th anniversary with a wind cannon designed to blow out candles at far distances. Originally posted to YouTube, it received over 1.5 million hits, Krings claimed.

YOU TALKIN' TO ME?

As important as the Web can be to marketing efforts, word-of-mouth is even more crucial—or so keynote speaker Dave Balter, CEO of BzzAgent, would have you believe.

Balter, whose company specializes in word-of-mouth marketing, describes the process as "the honest sharing of opinions between one or more consumers." That, he added, was in contrast to "shill marketing, the worst kind of marketing," because no one believes it. A person working for a business but pretending not to in order to seem reliable is deemed a shill.

An organized word-of-mouth campaign is the better alternative to online efforts, Balter added. Product testimonials from volunteers are credible because they do not get paid; multiple interactions among volunteers and consumers are the key to getting the word out about your restaurant; and about 80 percent of word-of-mouth communications occur off-line.

BUSINESS ABROAD

International franchising has been a hot topic in 2008 given the downturn in the U.S. economy. Veteran Mike Shattuck, senior vice president of international operations for Atlanta-based Focus Brands, showed how communication lapses could capsize promising deals.

1. Julia Stewart of DineEquity said a leader's top priority during stressful times is his or her employees' well-being.

2. The Local Heroes reception featured Atlanta-based chains including Rising Roll Gourmet.

3. Danny York of Santa Fe Cattle Co. shared his plans for expanding the concept in small towns throughout the South.

4. People Report's Teresa Siriani talked to HR executives Devona Haslam, Maggie DeCan and Kat Cole about how the tough economy is affecting how they recruit and retain employees.

5. Keynoter Dave Balter touted the effectiveness of an organized word-of-mouth campaign.

6. Attendees asked questions on topics ranging from marketing to menu development.

7. Chris Tomasso of First Watch, John Metz Jr. of Marlow's Tavern and John Scardapane of Saladworks offered ways they are maintaining margins.

8. Old friends caught up at networking receptions.

9. George McKerrow Jr. of Ted's Montana Grill made the business case for going green.

10. Operators got a chance to check out sponsors' products.


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> "Your employees are looking for any crack that suggests all is not well at work. Leaders must demonstrate that they have not wavered one iota."
> *—DineEquity CEO Julia Stewart*

11. Receptions provided attendees with ample networking opportunities.

12. Matthew Corrin of Freshii shared how he revamped the concept for expansion.

13. Andrew Dismore dished on the rock bands he worked with to create Denny's Rock Star Menu.

14. John Krings of Erbert & Gerbert's and Doug Thielan of Qdoba talked about viral marketing efforts.

15. Lunch featured dishes using sponsors' products.

16. Publisher Patricia Dailey urged attendees to use the best practices that came out of the conference.

17. Operators talked shop and swapped ideas.

18. Industry executives at the Local Heroes reception.

19. A panel of chain leaders talked about growth in an ailing economy.

He told attendees that American companies must make sure potential franchisees, particularly in the Middle East, understand that a franchise "is a business, not a toy." Executives must also get across "the limits of the partnership." In other words, franchisors cannot lend a hand every step of the way. Shattuck said that a poorly constructed deal typically leads to fundamental problems, among them, taking more time to grow and reducing return on investment.

WORKING THE MARGINS

Speaking of ROI, businesses can't achieve them these days unless they pay close attention to margins.

During the Maintaining Margins general session, one audience member asked panelist John Scardapane, CEO of Conshohocken, Pa.-based Saladworks, whether operators should pay more attention to cost of goods sold instead of margins. "You have to look more closely at everything you do," Scardapane replied. "We are renegotiating contracts with our vendors, saying, 'Either you lower our prices or we find someone else.'"

Panelists Chris Tomasso, chief marketing officer for First Watch Restaurants, and John Metz Jr., chef-owner of Marlow's Tavern, discussed other margin-maintenance efforts such as dropping mystery-shopper programs, revising labor scheduling and reviewing cleaning contracts.

CREATIVE COOKING

Fun popped up again as Andrew Dismore, senior director of product innovation at Denny's, revealed the back story of the chain's All-Nighter menu, which now represents 22 percent of sales and $500 million. "We offer an opportunity to keep the night going," he said.

Dismore collaborated with rock bands to create the new dishes Denny's rolled out in late summer under the Rock Star Menu. Dismore explained how Katy Perry drew inspiration from her song "Hot n' Cold" to create a multilayered concoction of cherries, vanilla ice cream, hot fudge, French vanilla cappuccino and whipped cream with a cherry on top, now called the The Hot N Cold Cherry Chocolate Cappuccino.

Innovation is a key to growth especially in difficult times like these, according to the panelists at the menu-development session. Vice President of Food and Beverage Chris Gatto of Uno Chicago Grill explained how the chain was "defending" its lunch business from quick-casual eateries by launching an all-you-can-eat, self-serve soup. "It's all about value and speed," he declared, adding sales rose about 6 percent.

PEOPLE FIRST

It's arguably more important to retain productive employees than anything else. That case was forcefully made during the Focus on People panel. Moderator Teresa Siriani, president of Dallas-based human-resources benchmarking firm People Report, shared statistics that show stagnant job growth for restaurants.

Despite a soft labor market, she added, restaurants are having problems recruiting people because they are in competition with the health-care and education sectors. Panelists described ways their companies are addressing the issue. Kat Cole, vice president of training and development for Hooters of America, for example, told attendees how the chain "created more of an ownership culture" by assigning company GMs to task forces in which they had a role in decision-making. "We treated them more like franchisees," she said.

TREAT 'EM RIGHT

Julia Stewart, chairman and CEO of Los Angeles-based DineEquity, parent of IHOP and Applebee's, drilled home the message that employees' well-being takes top priority during stressful times. That's because they are likely to fret about their financial situation and become less productive. She suggested assuring workers that the economy and the company will improve eventually.

"[Employees] look for any crack that suggests all is not well," Stewart cautioned. "Demonstrate that you have not wavered one iota."

Restaurant operators are usually good at seeing opportunity, as members of the Leadership Panel showed. Coby Brooks, president and CEO of Hooters, described how his chain was menuing lower cost items to help maintain margins. Huddle House CEO Phil Greifeld mentioned the Atlanta-based chain was switching to a 7.5-ounce burger from an 8-ounce patty to trim costs.

Raving Brands President Daryl Dollinger noted that the Atlanta-based company, which franchises several fast-casual brands, was "always looking for a smaller box."

Expansion? Clay Dover, president and CMO of Baton Rouge, La.-based Raising Cane's, said his chain plans to expand its base by 20 percent. ■

on the web: To check out more photos and videos from *Chain Leader LIVE*, visit **www.chainleader.com.**

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BIG idea To maintain margins in a tough economy, Chris Tomasso of First Watch and John Metz Jr. of Marlow's Tavern suggest restaurants drop mystery-shopper programs, revise labor scheduling and review cleaning contracts.

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Franchise Developer

Financing Expansion in a Tough Economy

Today's financial headlines are enough to scare any business owner. But while traditional lenders are tightening their purse strings, alternative financing options remain for multiunit franchise developers looking to expand, says Elliot Fine, vice president of Frandocs, a consultancy specializing in preparing, launching and expanding franchises with offices in Islamorada and Palm Beach Gardens, Fla.

Q: How is today's economy affecting franchise developers?
A: Because of the tightened credit market, getting financing is more difficult than ever before, but it's still available. It's definitely harder to come by, though: A FICO score of 650 to 700 is typically not acceptable anymore for franchisees; lenders want a score more like 700 to 750.

Q: What are the alternatives to traditional lenders?
A: Investor angels are important in getting franchisees opened up. Many real-estate developers want to bring them in, too, and will help out financially. Also, more and more today, the franchisors themselves are actually helping finance the franchisees. They used to be more aloof, but now they're giving more help to franchisees to start up or expand.

Q: What must developers present to secure financing today?
A: More than ever, lenders are looking for hard assets, because that's what they're financing against. Without assets such as real estate or equipment, they're not going to get the money. Lenders just are not willing to take the risk right now. This is where chain restaurants looking to expand are at an advantage over new franchisees—they've already got hard assets behind them.

Q: Which franchise markets are best poised to receive financing for expansion?
A: The lower the investment, the larger the market. High-investment, multi-million dollar franchises are very hard to move right now. But the lower-priced options, with an investment of $100,000 to $150,000, are extremely popular right now. And thanks to technology, it's much easier to grow a franchise right now than it ever has been. With computers, the Web and new point-of-sale systems, it's very inexpensive to market a franchise and research financing. That creates the opportunity to move a lot of franchises that couldn't afford to be sold before.

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Healthy OUTLOOK

Starbucks has evolved its menu beyond coffee to include nutritious products.

Evolving menus far beyond espresso drinks and sweet baked treats, Seattle-based Starbucks Coffee Company has been busy adding healthful new items that fit guest desires for more purposeful nutrition. It's also revised existing items to fall within "nutrition guardrails," guidelines the coffee giant launched in 2007 that place caps on fat and calories. *Chain Leader* spoke with Senior Nutritionist Katie Thomson, who works closely with Starbucks product development and marketing teams to identify opportunities for new products and provide recommendations on nutrient levels and ingredients, to learn all about it.

When did Starbucks first decide to shift its food strategy in a big way?

About 18 months ago or so, when we did our trans-fat purge, we really took a step back and took a look at our food and beverage portfolio and made a few big moves. We created nutrition guardrails, which limit and put caps on calories, fat, saturated fat, etc. in all of our products. So this really led to some reformulations as well as slight portion size decreases.

The Berry Stella, with whole grains and omega 3s, launched July 15.

Give us a few examples.

Some items, such as a doughnut or a butter croissant, we decreased very slightly in portion size, shaving 50 calories off here and there. And then other items such as the 130-calorie Petite Vanilla Scone were developed purposefully to provide our customers with that petite mini indulgence.

Can I ask what the calorie cap is?

We have not publicized what those caps are. But we have said what those caps have contributed to as far as across-the-board decreases in fat, calories and saturated fat. For example, over the course of the last year, our switch to 2 percent milk instead of whole milk [as the standard inclusion for espresso drinks that include milk] has saved our customers 17 billion calories. That's equivalent to 5 million pounds of body fat.

It's not that all of our healthier options need to be low calorie, low fat, low sugar. But we are trying to incorporate healthy carbohydrates and fiber and fruits, healthy fats, so the calories you do get are calories that are going to fill you up, will provide you with the nutrients you are looking for and are overall delicious.

You've stepped up the pace with the introductions of some of these things. Tell me a bit about that.

July 15 we launched our Vivanno Nourishing Blends, which are healthier smoothies made with 100 percent fruit juice and puree, choice of milk, banana, and a whey protein and fiber that we developed. At the same time, we introduced the Berry Stella, a 100 percent whole-grain product that contains blueberries and raspberries, rolled oats, whole-wheat flour and omega 3s. There's also the new Power Protein Plate, with bagel, peanut butter, fruit and egg, for customers on the go; the Apple Bran Muffin, which has 7 grams of both protein and fiber; oatmeal and more.

Tell me about the oatmeal.

It has been a big hit, especially because we were able to deliver on customization, taste and convenience. Our research showed that people are very ritualistic about how they eat oatmeal. Our giving them the ability to choose from any toppings—dried fruit, dried nuts and brown sugar—plus anything at the coffee-condiment bar—nutmeg, cinnamon, milk, etc.—at no added cost really gave guests the chance to make oatmeal a very personal experience.

Where do you see the menu going next?

We'll continue to listen to what our customers are asking for and want to meet their needs with transparency so they can make informed decisions. One great tool is mystarbucksidea.com, where we've seen our customers continue to ask for healthier options, lean meats, healthy fats and whole grains. ■

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

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