Vol. 15, No. 1
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February 2010

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More BANG for the BUCK

How menu developers such as El Pollo Loco's Jon Miller and Nancy Cutler balance innovation and cost. PAGE 26

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Working for the WEEKDAYS

Consumers say they visit chains more often than independents for away-from-home meals, but chains really rule Monday through Friday.

Most consumers say they choose chain restaurants over independents when they eat out, but the difference is even greater on weekdays. According to *Restaurants & Institutions'* 2010 New American Diner Study, two-thirds of adults say they are more likely to have dinner at a chain on a weekday, and on the weekend, the figure is just over half.

Likewise, 71.3 percent are more likely to eat at a chain for lunch on a weekday, while 58.9 percent are more likely on the weekend. And 69.7 percent of respondents say they are more likely to eat at a chain for breakfast on a weekday; 54.0 percent on the weekend.

Matures, those age 64 or older, are more likely to say they choose independent restaurants when asked about every daypart. Take dinner, for example: While 33.4 percent of all respondents say they are more likely to eat at an independent on a weekday and 49.2 percent are more likely on the weekend, 44.7 percent of matures say on a weekday they are more likely to visit an independent restaurant and fully 64.2 percent are more apt to do so on the weekend.

Conversely, those who are 28 years old or younger skew the other way; they are more likely than other groups to say they eat more often in chains.

Those in the Northeast leaned toward independents more than the total-respondent pool in every daypart, as did those in the West, though to a lesser degree.

At each daypart, consumers with children were more likely than the all-respondent average to say they visit chains. ■

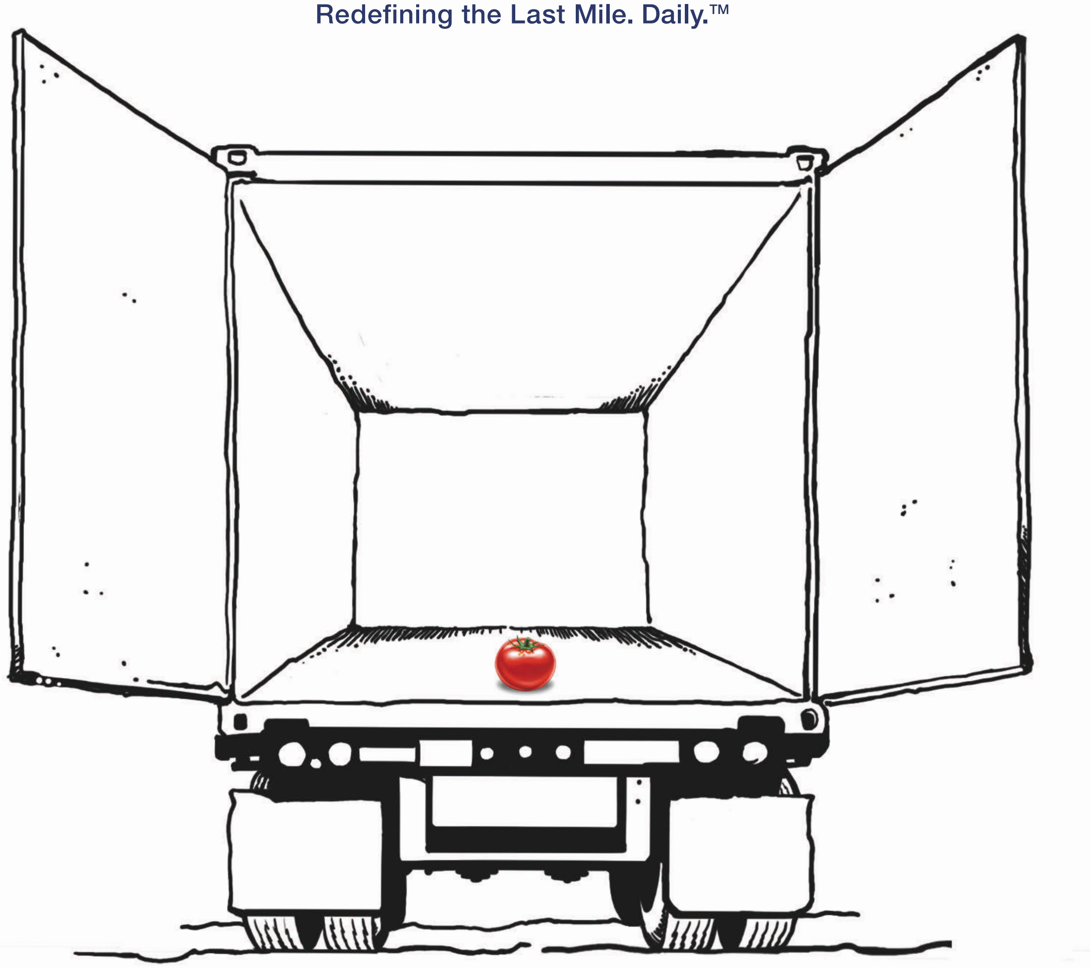
THROUGH THE AGES

Consumers were asked where they were more likely to eat their meals away from home on weekdays and weekends.

		GENDER		AGE			
Weekday Breakfast	Total	Female	Male	28 or under	29 to 42	44 to 63	64 or older
Chain	69.7%	70.9%	68.5%	76.1%	71.5%	67.7%	59.9%
Independent	30.3	29.1	31.5	23.9	28.5	32.3	40.1
Weekend Breakfast							
Chain	54.0	55.0	52.9	61.1	53.7	51.7	47.4
Independent	46.0	45.0	47.1	38.9	46.3	48.7	52.6
Weekday Lunch							
Chain	71.3	73.6	68.9	75.1	73.5	70.5	63.5
Independent	28.7	26.4	31.1	24.9	26.5	29.5	36.5
Weekend Lunch							
Chain	58.9	60.6	57.0	63.9	63.2	57.0	48.0
Independent	41.1	39.4	43.0	36.1	36.8	43.0	52.0
Weekday Dinner							
Chain	66.6	69.6	63.6	74.3	71.8	63.0	55.3
Independent	33.4	30.4	36.4	25.7	28.2	37.0	44.7
Weekend Dinner							
Chain	50.8	53.3	48.2	63.2	56.8	44.6	35.8
Independent	49.2	46.7	51.8	36.8	43.2	55.4	64.2

Source: *Restaurants & Institutions'* 2010 New American Diner Study

ON THE WEB: For more information about *Restaurants & Institutions'* 2010 New American Diner Study, visit www.rimag.com.



VOL. 15, NO. 1

january/february

ON THE COVER

Food Cost vs. Innovation

Director of Research and Development Jon Miller and Manager of Optimization and Innovation Nancy Cutler team up to balance food costs with innovation at El Pollo Loco. Their partnership represents the industrywide challenge of consistently offering consumers new products in a cost-restrictive environment.

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departments

on the WEB

WEBCAST: ENERGY AND WATER MANAGEMENT

Measuring and reducing energy and water consumption can not only impact the bottom line, but it can also enhance the reputation of the entire chain. The on-demand webcast features Walt Taylor, director of energy for Wendy's/Arby's Group Inc.

FEATURED PODCAST

A chain puts a test item in a store one day, and the Internet makes it national news the next. Social-media marketing expert Paul Rand discusses the benefits and drawbacks.

BLOG BYTES

- David Farkas on 50 things a restaurant server should never do
- Marketing veteran Karen Brennan digs into the In-N-Out phenomenon
- On the Spot checks out new television advertising

OPERATOR POLL

About 36 percent of chainleader.com visitors said their chain's 2009 bottom line came in much better than they had anticipated a year ago. Only 9 percent said it was a lot worse. Next up: Are "green" efforts impacting your business?

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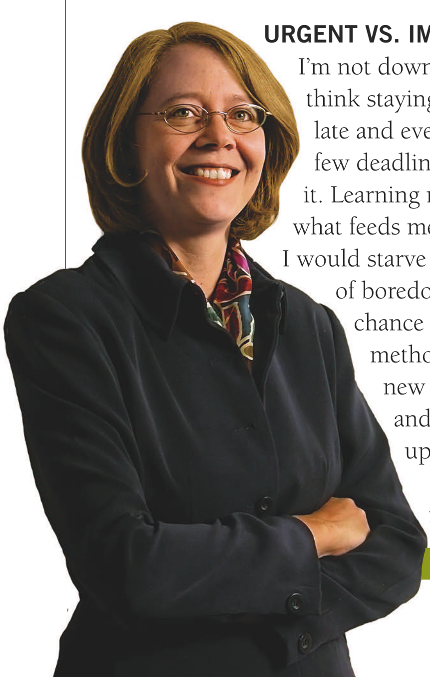
Training Day

My column was late this month. I admit it's almost always late. But this time I have an excuse: I've been in training. Our company's Web sites are moving to a new content management system, and we've been preparing for a seamless rollout. (Don't get too excited—you won't notice too much of a difference on chainleader.com, except that it should load a little faster.)

> The companies that are going to keep the best talent are those whose workers are not only happy to have a job, they're happy in their job.

Training is like that, isn't it? It affects deadlines because it takes time away from the tasks we have to do right now, and if your company is like most in the country, you have more right-now tasks than ever before.

URGENT VS. IMPORTANT



I'm not down on training. I think staying a few hours late and even missing a few deadlines is worth it. Learning new things is what feeds me in my career. I would starve (or perhaps die of boredom) without the chance to try different methods, take on new responsibilities and change things up a bit.

Many of our readers understand that now is the best time to keep employees well fed in the knowledge department. Those are the executives who see human capital as an asset rather than an expense. They recognize the need to keep training and growing their workers so they can grow their companies.

Then there are the executives who don't get it. They see employee improvement as a line item, nice to have, maybe, but cuttable in difficult times. Some even suspect that training beyond a person's job will make him or her more attractive and marketable, and they'll lose decent workers.

That attitude might make sense to those executives right now, when unemployment is high and employees are happy to have a job.

TIMES ARE CHANGING

But the economy is coming back (though not as quickly as we might like), and happy-to-have-a-job employees are going to move on. Conference Board research released early in January reveals that only 45 percent of U.S. workers are satisfied with their jobs, the lowest level since record-keeping began 22 years ago. And the 2009 Employment Dynamics and Growth Expectations Report said 55 percent of employees plan to change jobs, careers or industries "when the economy recovers."

The companies that are going to keep the best talent are those whose workers are not only happy to have a job, they're happy in their job and know they are being prepared for future opportunities. That's how careers are made. ■

Mary

Mary Boltz Chapman
Editor-in-Chief

I WELCOME YOUR FEEDBACK. Contact me at (630) 288-8250 or mchapman@reedbusiness.com.

BIG ideas

"I hated every minute of training, but I said, 'Don't quit. Suffer now and live the rest of your life as a champion.'"
—Muhammad Ali

"Luck is what happens when preparation meets opportunity."
—Seneca

"Personally, I am always ready to learn, although I do not always like being taught."
—Winston Churchill

"The vision is really about empowering workers, giving them all the information about what's going on so they can do a lot more than they've done in the past."
—Bill Gates

"The employer generally gets the employees he deserves."
—Walter Raleigh

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Word of Mouth

To help determine which brands are recommended most often, marketing agency Zócalo Group and MARC Research created the Recommendation Index.

The researchers asked consumers not just if they would recommend a brand, but why, how and how often, and how the brand compares to others. The brands frequently recommended were analyzed in online conversations in blogs, forums and social-networking sites.

The first category analyzed was casual-dining restaurants. The Recommendation Index represents the proportion of positive to negative recommendations.

1.	California Pizza Kitchen	4.57
2.	Texas Roadhouse	3.61
3.	Outback Steakhouse	3.16
4.	Applebee's	3.04
5.	The Cheesecake Factory	3.03
6.	Red Robin	3.01
7.	Red Lobster	2.79
8.	Olive Garden	2.77
9.	Chili's Grill & Bar	2.71
10.	T.G.I. Friday's	2.63

In research, consumers said they most often recommend California Pizza Kitchen and its gourmet pizzas.

BACK OF THE HOUSE

Evolution of the **Italian Kitchen**

Biaggi's is updating its back-of-the-house procedures to improve timing and ensure dishes come out fresh.

As in all segments of the restaurant industry, Italian concepts are working to keep operating costs down to help boost profitability. Consequently, Italian restaurant operators constantly seek out opportunities to streamline their operations.

FASTER PREP

"Pasta companies are working hard, experimenting with pre-prepared sauces," says Peter Schonman, corporate executive chef at Bloomington, Ill.-based Biaggi's Ristorante, which has 21 locations. "Even in Italy, they are creating frozen sauce cubes to expedite production. U.S. pasta factories and companies are using the latest technology to develop pasta stuffed with chunks of ingredients instead of ground fillings. This fits more with what American consumers are looking for."

GOOD TIMING

For scratch kitchens like Biaggi's, one of the biggest challenges is timing. As a result, the chain has looked into updating its back-of-the-house procedures. "Induction stove quality and longevity has increased, so we're considering incorporating these units in our locations," Schonman says. "With the cost of natural gas increasing, this may provide potential savings."

CONSTANT CONSISTENCIES

Equipment efficiencies have helped many operators save costs. For example, instead of wood-burning ovens, Brio Tuscan Grille's new locations use gas pizza ovens, which are more economical and easier to operate. In addition, the Columbus, Ohio-based chain added defroster units for frozen items, which have helped streamline its operations.

"We can put frozen meats in the defroster to thaw in 30 minutes, rather than two to three days in the cooler," says Executive Chef Ben Rogers. "Prep costs money, so the less prep we have, the better."

FRESH, SAFE, AUTHENTIC

Staff at Corte Madera, Calif.-based Il Fornaio restaurants use various sizes of blast chillers to help keep products at proper temperatures and provide detailed records for health inspectors. The restaurants also added bread warming ovens, which keep bread both warm and soft.

Because 35 percent of Il Fornaio's menu is pasta, the chain emphasizes the authenticity of food prep. Regulated pasta machines replenish and recycle water during the cooking process, providing better product consistency, says President Michael Beatrice. Employees cut pasta using a brass die as opposed to a stainless-steel one, which helps preserve the shape. New Il Fornaio locations also have curing rooms for salami, sausage and other meats. Its slicers are Italian-made and operate manually to maintain the meats' integrity. ■

Adapted from an article by Foodservice Equipment & Supplies *Contributing Editor Lisa White*

EXPANSION CAPITAL

Will Roark **Support More** Restaurants?

Roark Capital Group hasn't been shy about spreading the wealth among growth-oriented restaurant companies. Until last year. The Atlanta-based private equity firm, which controls several fast-growing chains including McAlister's Deli and Moe's, had no restaurant deals in 2009. *Chain Leader* Senior Editor David Farkas asked Managing Director Steve Romaniello to explain.

Roark has done several transactions recently, yet none in the restaurant space. Why not?

We continue to be active in our pursuit in this space. But we have not seen the deal flow shake out quite yet. We hope to be much more active and substantially increase our restaurant holdings in 2010.

Are you still looking at franchise models?

We like franchising. That's an expertise of the firm, in general. But we love restaurants and have gone pretty far down the road with large multiunit franchises. So we like both sides of the equation: franchisor and franchisee.

Is Roark being pitched or does Roark do the pitching these days?

It's a combination of both. There are times when we get approached by folks who think we can help them with whatever they are looking to achieve, whether that's to provide growth capital or an exit strategy. We are also active in those processes led by banks.

So what kinds of requests are you hearing?

Companies are now coming to us and saying, "The recession stinks. We are hanging in there OK. We think this represents a once-in-a-lifetime opportunity to capitalize on things that arise in an environment like this."

Such as?

It could be someone who owns 100 restaurants and believes there's an opportunity to go from 100 to150 restaurants in a couple of years through smart acquisitions. It could be an expansion strategy. Because their competitors are not expanding, they think there's the opportunity to be first in market. Or it could be an opportunity to bolster a management team. There are a lot of great people who, through no fault of their own, are out there and available. We get all of those requests, and often it's a combination of them.

In other words, each situation is different.

We talk all the time about how we try to learn from each experience and apply the lessons. But rarely do we see [deals] that directly line up. It's always a different nuance, personality, segment or menu. Yet what we are looking for are concepts that are on-trend and with the wind at their back. ■

BLOGS TALKBACK PODCAST

What Is it About In-N-Out Burger?

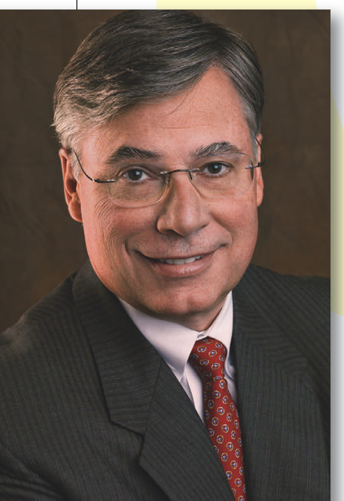
In-N-Out Burger's cult status was confirmed for *Chain Leader* blogger Karen Brennan at a wine-tasting holiday party. At the end of an evening filled with lovely food, cool guests, wonderful wines and old friends, suddenly piles of Double-Doubles appeared. Tray after tray of burgers circulated through the crowd, leaving a trail ooh's and aah's in its wake.

Veteran restaurant-marketing executive Brennan found it even more fascinating to hear other people's In-N-Out stories after she told hers. "It made me realize that this really is the hallmark of a powerful brand...a brand so powerful that it breeds legendary stories by passionate fans with powerful reactions," she writes.

Brennan's In-N-Out post caused its own conversation, with readers sharing their experiences with the Irvine, Calif.-based chain. Check it out at *www.chainleader.com.*

ON THE MONEY

Distribute the WEALTH



"To get our ingredients at a lower cost to franchisees, we had to go to Marco's Pizza Distribution."
—*Jack Butorac*

In January, Toledo, Ohio-based Marco's Franchising launches Marco's Pizza Distribution in the suburb of Maumee. MPD will serve about 160 of the 190 Marco's Pizza outlets. Rapid growth sparked the decision to lease the 40,000-square-foot space, says President and CEO Jack Butorac, who recently described the strategy behind the restaurant chain's latest move.

How are you financing the distribution center?
I was financing it initially. I said to my friends, who are partners in Marco's Franchising, "Let's put up some money."

Can you ballpark a total cost for the facility?
Well, you're talking millions of dollars. Through a gentleman named John McDevitt, who was [Domino's Pizza founder] Tom Monaghan's personal CFO, we were able to get bank financing and a line of credit.

What portion is the bank financing?
The bank will finance the inventory.

By the way, had you planned on opening a distribution center?
No. It wasn't until we formed an area rep program that we gave it any thought. Then suddenly we built a lot of stores in a short period.

They're fairly far flung.
We are in 17 states. With so many stores, I was asking around for someone who had experienced this kind of growth. The name Dave Black, a former Domino's president, came up. So I called him and spent a day with him. I asked him what's going break. He said, you've got it all, but you have one problem: The ingredients you get in Toledo you are not going to get in Florida or North Carolina.

How do you separate your distribution company from the franchisor company?
Franchisees usually are very skeptical when the franchisor has a distribution company, and it is well deserved.

What are you doing different?
I told franchisees that they will own part of MPD. But what we found out is that it's a challenging thing to do, according to the auditors.

So instead?
The auditors suggested that, like Domino's, we give a rebate to the franchisees at the end of the year. Meanwhile, we will publish MPD's P&L quarterly. The profit percentage is minimal in any case, just 2 percent. We will give part of that 2 percent back to the franchisees. The purpose of MPD is solely to deliver those ingredients to the stores. It's not to be a profit vehicle for me or my partners.

What's the long-term outlook for MPD?
We know we can deliver [ingredients] cheaper than we are currently. We will be charging a cost per case versus a margin. A good example is a bag of flour, which now costs about $10. If that bag of flour goes up to $20, the distributor, who does the same amount of work, doubles his profits. The idea here is not to make it a huge profit center. ■

IN THE WORKS: MPD may soon be warehousing ovens and counters, providing a turnkey plan for franchisees.

The right first impression inevitably leads to seconds.

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*Heinz Ketchup A La Carte Study – Jan. 2009 among past month casual dining restaurant consumers

20 Menu Trends for 2010

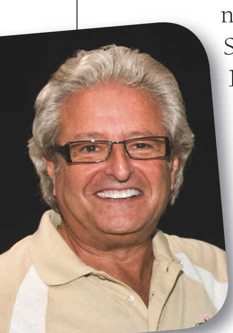
Chain Leader sister publication *Restaurants & Institutions* identifies 20 top menu trends for the year, all focused on food that makes the customer feel good—good about the flavors; good about the ingredients and where they come from; and of course, good about what they're spending.

1. Homey favorites spotlighting affordable cuts such as pot roast and brisket.
2. Asian + Latin = A dynamic duo.
3. Speed- and value-oriented lunch specials.
4. Beer: craft and seasonal labels, menu pairings and themed dinners, beer-centric pubs and eateries.
5. Chains build better burgers, like the Western Burger from Denny's Better Burger line, pictured here.
6. Are eggs the new bacon? Eggs are everywhere on menus.
7. Drugstore-counter desserts such as shakes and floats.
8. More downscale dining from big-name chefs.
9. Meatless meals in the interest of health and environmental sustainability.
10. Bone-in fried chicken in upscale dining rooms and nontraditional deep-fried fare.
11. Fast, casual fine-dining.
12. Low-carbon-footprint dining.
13. More-healthful morning meals.
14. Liquor sourced from nearby specialty and small-batch distillers.
15. Coal-fired ovens heat up pizza.
16. Smoking lets chefs imbue layers of flavor into products without adding fat, sugar or sodium.
17. Gluten-free gets its day.
18. High time for tea, finally getting its due on American menus.
19. Off-the-bone cuts of lamb.
20. Back-to-basics techniques: canning and pickling produce, curing salumi and butchering meat.

FRANCHISE MANAGEMENT

Until Banks Fund, **Franchisees Can Help**

This past year, industry veteran Larry Feldman added 61 new Subways to the nearly 1,100 he controls in Delaware, Maryland, Virginia and the District of Columbia. (Subway itself added 1,800 in 2009.). He has development-agent rights to sub-franchise those areas since turning a vacant space near the U.S. Capitol into a Subway sandwich shop in 1977.



Says Subway Development Corp. of Washington CEO Larry Feldman: "Get the Feds to help the banks to release the funds. If the banks have an excuse, the Feds need to take it away. This will help create taxes and jobs."

Feldman, a former assistant minority counsel to the House Banking Committee in Washington, D.C., is frustrated with the government and banks. "The banks say they have the money but now are not lending and blaming the federal government, the SBA (Small Business Administration) and TARP (Troubled Asset Relief Program)," he says. "Now, if we find out it's the banks' balance sheets [that are in trouble], then it is about providing guarantees."

Lately Feldman has been using his experience to help emerging franchisors the Original Brooklyn Water Bagel Co. and Pizza Fusion attract franchisees. If only franchisees could get funding.

While he sees good news for Subway—prospective franchisees are more likely to have money and banking relationships than the young entrepreneurs who typically apply—Feldman has had to work harder to help the younger franchisors.

"If you are going to buy a Subway and you have previous Subway experience, you can get all the financing you need," he says. "I now have a situation where, if you are a franchisee for Pizza Fusion or Brooklyn Bagel and have previous experience, you can get financing. We use a number of small financial companies. They are more willing to loan to you than banks will."

He also recommends exploring different alternatives to financing, for example, offering franchisees an equipment-leasing program. ■

The Sweet SPOT

Growing chain Sweetgreen caters to an eco-friendly customer that wants healthful food, locally produced.

A small sign on the salad bar alerts customers that Sweetgreen buys many herbs, fruits and vegetables from local farmers.

Reclaimed hickory from local barns is used on Sweetgreen's floors, walls and ceilings.

Sustainable. Local. Organic. Fresh. Those are sweet words to fans of three-unit Sweetgreen, if volumes are anything to judge by. On average, the Washington, D.C.-based salad-and-frozen-yogurt concept serves about 200 people an hour at lunch, says founding partner Nicolas Jammet.

Part of the draw is Sweetgreen's positioning, which leans heavily on eco-conscious practices. Napkins are made from recycled paper, and disposables are biodegradable. The units incorporate energy-efficient lighting, reclaimed local hickory and soy-based paints. Signs inform customers which local farms supply produce.

"That's a sweet spot today," says restaurant consultant Fred LeFranc, who has done work for Freshii, a Toronto-based premium-salad concept with an outpost in Chicago and plans to enter Washington, D.C., this year.

GROWTH PLANS

Sweetgreen expects to add five units in 2010, Jammet says, most in the Washington Metro area. Money to pay for those units will again be raised from family and friends, though Jammet hopes to add outside investors to the pool.

Although Jammet is vague about expanding outside Washington, former restaurant executive Paul Fields, who has consulted the small chain, believes it might easily reach 100 units by sticking to upscale metropolitan areas like New York City, Los Angeles and Boston.

Meanwhile, the partners—Jammet, Jonathan Neman and Nathaniel Ru—say they are building for the future. They recently hired a director of operations and brought accounting in house.

Sweetgreen is also working with Fresh Farm Markets, a local co-operative that runs outdoor markets in the District. "We've always tried to buy as much local and organic produce as we could, but now with our increased buying power, it's becoming a lot easier," Jammet says.

The founders, friends and '07 graduates of Georgetown University, cooked up the fast-casual concept after Ru spotted a closed restaurant in a historic building in Georgetown. "In Georgetown, we knew exactly what people wanted eat and what we wanted to eat," Jammet says.

ENTREPRENEURIAL EFFORT

Jammet, Neman and Ru put together a business plan in their senior year with help from Adjunct Professor William Finnerty, who teaches entrepreneurship. They also learned lessons from their entrepreneurial parents. Jammet's parents operated the now-shuttered La Caravelle, one of New York City's most storied restaurants, for 25 years. Neman and Ru's folks are business owners.

Their first unit, just 560 square feet, opened in August 2007. It was an immediate hit. "So far, so good," noted *The Washington Post* a month later. "The quality of the ingredients—30 percent organic and growing—already has the office crowd and the college kids lining up to squeeze into the shiny, eco-chic space."

Sweetgreen added two units in 2009, in urban-hip DuPont Circle and affluent Bethesda, Md. Each cost about $300,000 to open on a non-capitalized basis, according to Jammet. *Chain Leader* estimates AUV at $1 million.

In June Sweetgreen began selling frozen yogurt and salads from a customized mobile unit, which Jammet claims uses 80 percent less fuel than other trucks when stationary. ■

SNAPSHOT

Concept Sweetgreen
Headquarters: Washington, D.C.
Units 3
2009 Systemwide Sales $3 million*
Average Check $9
Expansion Plans 5 in 2010

*_Chain Leader_ estimate

IN THE WORKS: Sweetgreen's ultimate goal is to open a LEED-certified restaurant.

 by david farkas

Let's Make a DEAL

The recession has turned the tables on landlords, who are now offering chains **ATTRACTIVE RENTS AND MORE.**

Had more landlords been willing to work with Chili's Grill & Bar in the 1980s, the casual-dining chain might have opened a lot more restaurants. But developers sometimes balked at Chili's loudly striped awnings, a crucial brand element.

"We killed many deals if they wanted us to have their awning," recalls Clark Knippers, then vice president of real estate and development for Chili's parent company Brinker International.

Until recently, landlords have had no problem asking for—and often getting—their awnings or whatever else they wanted in leasehold agreements. Competition for good sites was fierce among fast-growing restaurants and retailers, which typically acceded to landlords' demands.

Not anymore. "Supply and demand has flipped; now it's a tenants' market," says Knippers, founder and president of Dallas-based Foremark, a consultancy specializing in restaurant real estate.

SPACE AVAILABLE

Blame the poor economy, which is tanking businesses and freeing up loads of commercial space at attractive prices. Spring ReCount data from market research firm NPD Group show the U.S. total restaurant count slipped 0.6 percent in 2008, to 570,980. Experts believe that percentage is sure to climb when new data are out later this month. "I definitely think there is reason to believe so given persistently weak industry sales trends," offers restaurant analyst Mark Kalinowski of Janney Montgomery Scott.

Excess capacity means lower rents, already down 10 percent on average nationally, according to Jones Lang LaSalle. They will tumble another 5 to 7 percent this year, especially in secondary markets, notes a report from the

Pizza Inn, an aging chain in a crowded category, says the chain is nonetheless attracting more tenant improvement dollars than ever, says Vice President of Franchising Madison Jobe.

This past year, mall landlords gave Häagen-Dazs build-out extensions for the first time, saving the ice-cream chain tens of thousands of dollars.

Kevin Kruse, vice president of franchise development for Einstein Noah Restaurant Group, claims he's hasn't seen "this many high quality sites in a very, very long time."

Chicago-based real-estate services firm. "Rent declines in the most construction-heavy markets like Atlanta, Charlotte and Miami will approach double digits in the first half of [2010]," the report adds. The firm doesn't expect rents to begin rising until well into 2011.

And a fall survey of property owners by *National Real Estate Investor*, a trade publication, showed that 52 percent expected effective rents to decrease for the next 12 months compared to 38 percent who projected declines three months earlier.

The upside for restaurant chains, especially growth-oriented chains, is deals galore. Lease terms (including mid-lease) have changed dramatically over the last 12 months.

"We are getting real-estate deals we've never gotten before," declares Larry Feldman, CEO of Subway Development Corp. of Washington, sub-franchisor of more than 1,000 sandwich shops in the mid-Atlantic region. "Landlords are splitting space and cutting rents."

In one case, a landlord is charging Feldman half the rent he would have paid two years ago in a rehabbed food court in Washington, D.C. In another, a Georgetown, Md., developer divided a shuttered Blockbuster, offering Feldman's franchisee 3,500 square feet—a deal Feldman claims never would have happened two years ago. "We walk into a landlord, and now we're on top," he says.

RENT RELIEF

Perhaps the most remarked-upon change in lease structures has been landlords' willingness to grant rent relief mid-lease, a practice all but unheard of until recently.

"I have never seen anything like this," says Madison Jobe, vice president of development for Dallas-based, 315-unit Pizza Inn, referring to rent restructuring. "I have never experienced anything like what we are going through now, nor have any colleagues I've talked to."

"Rent relief is part of the reason occupancy is where it is today," Taubman Centers CEO Robert Taubman told investors in the company's third-quarter 2009 conference call. Occupancy had slipped just 1.4 percent in the prior 12 months at the 25 malls the Bloomfield Hills, Mich.-based company operates. Tenant sales per square foot, however, tumbled nearly 12 percent, to $497 per square foot.

Taubman was mum on how many tenants have received abatement. "We would prefer not to be specific about the absolute number of rent relief cases," he said.

Rents won't rise (or even stabilize) until more consumers renew their love affair with meals away from home. That's unlikely until the second half of the year, when NPD Group predicts traffic will turn slightly positive. It likely won't spark new building. The International Franchise Association forecasts new-unit growth of just 2 percent among franchised businesses overall, well below the 5 percent average annual

When Will Rents Stabilize?

Here's an estimated timeline starting with the third-quarter of last year.

Q3 2009 Investment sales transaction volumes hit bottom.
Q4 2009 Leasing transaction volumes hit bottom.
Q1 2010 Cap rate expansion ends.
Q2 2010 Employment bottoms out.
Q3 2010 Occupancy stabilizes; rents and values hit bottom.
Q4 2010 Unemployment peaks.
Q1 2011 Vacancy peaks.
Q2 2011 Occupancy begins sustainable growth.
Q3 2011 Rents and values begin modest, sustainable growth.

Source: Jones Lang LaSalle, "U.S. National Economic and Property Outlook," Nov. 18, 2009

"There's no better time than now to be signing a lease."
—Sam Osborne, area developer, Tropical Smoothie Café

increase from 2001 to 2008.

As a result, many landlords will remain on the hunt for tenants as well as working to keep those they now have. "The dynamics have turned around so much that my e-mail is going crazy with landlords asking, 'What it will take to get you to stay in our center,'" says Sam Osborne, an area developer for Destin, Fla.-based Tropical Smoothie Café who has opened 20 locations in Central Florida.

For instance, Osborne recently helped renegotiate a lease, saving a franchisee $1,000 a month, or about $20,000 on the remainder of the lease. He says he told the landlord the franchisee wanted to stay but was exploring options. Osborne then asked the landlord "to work with us."

DON'T BITE THE HAND

As good as rents are, Galardi Group Director of Real Estate Lou Boemia advises operators to resist the temptation during negotiations to stand on a landlord's neck. In exchange for significantly lowering rent on a Weinerschnitzel or Tastee-Freeze (the Irvine, Calif.-based company operates and franchises 360 of them), Boemia offers to add two years to the lease with a rental increase based on a measure like the Consumer Price Index plus 1 percent. "That way, the landlord can save face by saying he was able to raise the rent despite cutting it when he goes to his lenders or bosses," he explains.

BIG idea In exchange for a lower percentage rent, Larry Feldman agrees to three-year instead of five-year reviews from landlords.

Feldman, who tries to keep Subway rents at 8 percent of sales, also recommends a light touch. "We can work out deals with three-year instead of five-year reviews. We can work out percentage rent deals," he says. "It's becoming more of a partnership between tenant and landlord."

Tenant representative Dan Wirth, CEO of Windsor Realty in Atlanta, suggests taking a plan to the landlord instead of telling him things aren't working and you need rent relief. "Make it a win-win situation," he advises. "Say, 'Let's fix the partnership so we can be in this for the long term. Here is what I will do as a tenant, and here is what you need to do as a landlord.'"

"Partnering" can only go so far at times. Boemia cites a landlord who offered to cut a Weinerschnitzel's rent by roughly half if it would renew a lease in Fontana, Calif., a city battered by the recession. Boemia, who has negotiated many leases in hard-hit locales, countered the landlord's offer by saying he'd only pay maintenance and insurance fees on a month-to-month basis until a new tenant could be found. The landlord agreed.

Storefronts gone dark don't look good, Boemia notes. "Once you have a business failure, your [shopping center] starts to develop a stigma. I know I'm leery about going into them," he explains.

TI SURPRISE

Landlords today are also more generous with tenant improvement (TI) dollars, which are flowing to once unlikely candidates. Pizza Inn, an aging chain that has been opening buffet restaurants in recent years, is a beneficiary. "We are having more TI per square foot being thrown at

Slowly it Turns

Piper Jaffray Senior Research Analyst Nicole Regan Miller predicts restaurant companies won't add units in significant numbers until 2011. (Restaurant growth over the same period the prior year.)

	Q1 '10	Q2 '10	Q3 '10	Q4 '10	2011
Quick service	0.5%	0.6%	0.6%	0.5%	4.1%
Premium convenience	1.6	1.7	2.1	2.4	9.7
Casual dining	1.1	1.1	1.1	1.2	5.9
Fine dining	0.6	0.6	0.3	1.2	3.3

Source: Piper Jaffray

us, in some cases more than I have ever seen," says Jobe, adding TI ranges from $20 to $30 per square foot. That significantly trims the capital outlay for new franchised restaurants, improving cash-on-cash returns despite slightly higher occupancy costs.

Dan Ogiba, director of franchise development for Minneapolis-based Häagen-Dazs, is also surprised. "A small tenant like us never got TI," he says. "Now we are getting it even from large developers, often in the form of free rent or extended build-out periods from 90 to 120 days. Savings from such largesse, which might include deferred rent, extended leases or kiosk locations within malls, has totaled anywhere from $25,000 to $55,000 per site.

Another bonus for the dip stores: High-traffic storefronts in Boston, Long Island and South Florida are now affordable. The 260-unit company recently opened its first location in Boston's Back Bay and is looking for its third spot in South Beach. "Two years ago we would not have made those sites work," Ogiba says. Häagen-Dazs expects to open 20 stores in 2010.

SHOW ME YOUR LOSSES

Successful real-estate negotiations have always hinged on sharing certain financial information, chiefly tenant sales and expenses, with landlords. In this recession, however, landlords are asking for more, according to Jerry Herman, a Cleveland-based commercial real estate broker who specializes in restaurants. Some of the more financially savvy landlords now want to see detailed P&Ls and tax returns when a tenant requests rent relief.

The request may sound reasonable, considering an operator is asking a strapped landlord to take a potential bath. After all, highly leveraged developers are worried about breaking loan covenants. Still, Herman warns, never reveal too much.

A sophisticated landlord, provided enough financial data, could reasonably calculate a restaurant's "real" break-even point, a number in better economic times he wouldn't need to know. "[The landlord] might ask, 'Are you really losing money? You're charging expenses to the home office that are unusually high,'" Herman explains. "If he's a big developer and you have other restaurants in his properties, he can then assume their profitability. Now they want a percentage rent over a break-even they never knew about."

Not everyone shares that fear. Kevin Kruse, who has heard of landlords asking for P&Ls, thinks chains looking for wholesale rent relief should be prepared to show financials. "I think it's a reasonable request," says the vice president of franchise development for Einstein Noah Restaurant Group, which began franchising the Einstein concept two-and-a-half years ago.

Knippers, too, understands landlords wanting to see a restaurant's P&L. "If you say, 'I need rent relief,' it's fair for him to say, "Show me,'" he says. But, "I don't think you offer it up unless there is benefit."

If you refuse to reveal the P&L, don't be surprised by skeptical landlords, Wirth warns. "If I am not showing the P&L, landlords would say, 'You are still making money.'" In any case, he adds, given gross sales figures landlords can do the math. "I'm not sure there's much of a mystery to hold back," Wirth says.

Maybe not. But Jobe, not Pizza Inn franchisees, feels better when landlords get nosy. "If landlords are asking [for financials] during honest negotiations, that can be a good sign, because the landlord wants to see what you're doing," he explains. "I sometimes get concerned if they don't ask." ■

Subway sub-franchisee Larry Feldman tries to negotiate with landlords to keep rent at about 8 percent of sales.

Tropical Smoothie Café area developer Sam Osborne says landlords are willing to work with existing tenants and new ones.

The Galardi Group, which operates and franchises Weinerschnitzel and Tastee-Freeze, offers to add two years to the lease with a rental increase based on a measure like the CPI plus 1 percent in exchange for significantly reduced rents.

on the web: CEO Larry Feldman of Subway Development Co. of Washington looks for alternative ways to help franchisees. Plus, how a T.G.I. Friday's franchisee convinced landlords to help pay for an expensive remodel program. Visit ***www.chainleader.com.***

Two in One

McAlister's Deli **SLASHES BUILDING COSTS** with a reconsidered design package and a smaller footprint.

It was attractive, the interior design McAlister's Deli rolled out in 2005. Crown molding and wooden baseboards framed the walls, and green subway tile gleamed behind the menu boards. Tabletops were real marble, and real brick covered accent walls.

The look was attractive but expensive. In 2008, with a sober economy staring them in the face, executives at the Ridgeland, Miss.-based restaurant chain decided to re-examine the interior with a budget in mind.

At the same time, the 290-unit chain began mulling a prototype with fewer seats and less square footage than the classic McAlister's, which has about 140 seats and measures 4,000 square feet. The new model: about 100 seats and 3,200 square feet.

"We're trying to grow McAlister's in many states and many ways," says Phil Friedman, president and CEO. "We realized that to expand and grow, we had to work hard to contain and reduce costs."

The McAlister's in Columbus, Miss., features

SNAPSHOT

Concept: McAlister's Deli
Location: Columbus, Miss.
Opening Day: Feb. 16, 2009
Area: 3,200 square feet
Seats: 102
Check average: $7.50
Unit volume: $1.1 million
Expansion plans: 3 or 4 smaller, franchised locations this year; 6 remodels

both a smaller footprint and a value-engineered interior. Nevertheless, franchisee Matthew Bedwell says the 102-seat restaurant posts sales only 5 percent to 8 percent lower than his 137-seat McAlister's in Starksville, Miss.

WINDOW OF OPPORTUNITY

A former McAlister's executive who became a franchisee four years ago, Bedwell agreed to open the inaugural smaller prototype last February because he felt a smaller space made sense, especially in a market like Columbus, population 25,000.

Bedwell, however, says he wouldn't have agreed had the smaller prototype not included a pickup window. The pickup window looks like a drive-thru window but it's not: Customers pick up phoned-in orders at the window, a ploy that has enabled McAlister's to reduce customer clutter at the cash registers and open restaurants with fewer parking spaces.

Takeout accounts for about 30 percent of sales in most McAlister's locations; the pickup window boosts that to 40 percent, says Steve Phillips, McAlister's vice president of real estate and construction. "It's a pretty big increase just by making it more convenient," Phillips says.

The window also enables smaller stores to handle $1,500 sales hours; bigger stores peak at about $2,000, Friedman says.

At first the pickup window required some customer education. When customers who thought it was a drive-thru pulled up, staff took their orders, explained the purpose of the window and then asked them to pull into a parking spot to wait. Almost a year after opening, "guests love it, especially tea customers," Bedwell says, referring to customers who visit the restaurant several times a day to buy iced tea.

The pickup window required a kitchen

1. McAlister's value engineering is a work in progress: The chain is considering removing attractive, but expensive, subway tile from behind the menu board.

2. Fewer seats and a smaller footprint required streamlining the kitchen. The expeditor now faces cooks to better keep track of product flow.

Photography by Marc Bonderenko/Getty Images

3. Replacing real marble tops with wood-trimmed faux-marble laminate saves 20 percent on each table.

4. McAlister's purchasing department respecified every light fixture, resulting in a 30 percent savings on each location's lighting package.

5. McAlister's goal was to cut the cost of the design package without diminishing the customer-friendly interior look.

A kitchen remodel helps McAlister's smaller stores handle high volume hours.

KEY
Direction of shot
Shot No.
Position of camera

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

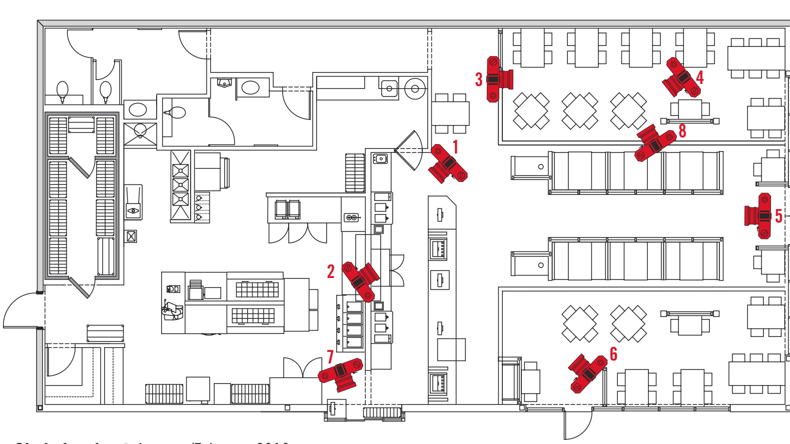
remap. In the old design, expediters faced the dining room; they now face cooks to better monitor product flow. Finished orders end up two places: at the pickup window for takeout guests and at the expediter's counter for dine-in guests. That system avoids confusion and congestion, Bedwell says.

CHEAP BUT CHIC

The Columbus location also features a half-dozen or so small but cost-effective design changes, arrived at by examining every fixture and finish in the store. "We really did look at everything with the idea of, what do we think will impact the guest, what will people notice if we change it," Phillips says.

The marble tabletops, for instance, are now faux-marble laminate with wood trim, a change that saves 20 percent on each table and even looks more upscale, says Lynn Pool, McAlister's director of design. The thin-set brick on the front counter and an accent wall is now faux brick, which costs less to ship and doesn't require a mason to install.

McAlister's scored big savings by respecifying and repricing the lighting package. That process unearthed inexpensive versions of current lighting fixtures and saves about 30 percent per store on lighting, Phillips says.



6. The signature black-and-white tiled floor is among the few interior elements McAlister's has not changed.

7. A designated pickup window eases congestion at the ordering counter and has boosted takeout business by 10 percentage points.

8. Replacing thin-brick veneer with faux brick saves not only on product cost, but on shipping and installation as well.

The pickup window has boosted McAlister's takeout sales to 40 percent.

Another example: Wooden shelving and crown molding was replaced with paint-grade lumber. A wooden baseboard was replaced with a rubber version, which costs less and wears longer, Pool says.

McAlister's is exploring further cost cuts, for instance, replacing light-green subway tile behind the menu board with a plain painted wall. The chain tested that option in one restaurant, "and nobody noticed," Pool says. The cost savings: 50 percent to 60 percent, he adds.

SIGNIFICANT SAVINGS

As a result of the smaller footprint and reconsidered interior, buildout costs have shrunk to $600,000 from about $800,000, Phillips says. Equally important are changes that allow smaller restaurants to produce about the same sales volume as the chain's larger locations. "A big question from franchisees was, if we reduce the size of the restaurant, how will it affect business," he explains.

BIG idea McAlister's saved 30 percent on lighting simply by going back to manufacturers and respecifying fixtures.

On tap: a new cooking system and kitchen package that will enable McAlister's to open an even smaller store, as small as 2,300 square feet. The company won't give details.

Three smaller locations are open: Columbus as well as one in McGee, Miss., and another in Peoria, Ill. Via franchisees, who account for 90 percent of the system, McAlister's plans to open three or four smaller restaurants this year, each of which will feature the less-expensive design package. About six franchised restaurants scheduled for a remodel will get the new design package this year.

Restaurant real-estate consultant Ryan Cunningham can't see any downsides to McAlister's approach. Cunningham, president of Denver-based Javelin Solutions LLC, says his own clients are becoming less wedded to square-feet, number-of-seats formulas and becoming more cost-sensitive. "People are figuring out that when you go to secondary or tertiary markets, you need a smaller footprint because revenue won't be as high, so the nut needs to be lower," Cunningham says.

Plus, real estate comes in all shapes and sizes, he adds: "If you go into a city, are you really going to say no to a perfect, great space just because it's not the right size?" ■

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Menu developers optimize ingredients and creatively allocate resources to innovate **COST EFFECTIVE NEW DISHES.**

Bigger BANG for the

For all the aspersions cast at bean counters, now is certainly a wise time to be one. Just ask Jon Miller, director of research and development for Costa Mesa, Calif.-based El Pollo Loco, and his new manager of optimization and innovation, Nancy Cutler. Counting beans—more specifically, adjusting specs to allow for purchase of canned pinto beans that have a higher drained weight, meaning more beans per can—is one of the ways 415-unit El Pollo Loco cut food costs in the last few months.

"Normally our purchasing team would reject a product like the higher-drained-weight pintos because they didn't exactly match the spec," Miller says. But with Cutler on hand to intervene, specs were recalculated and the money-saving beans were duly sourced.

El Pollo Loco created Cutler's position six months ago to prevent smart buys like those beans from slipping through the cracks. "We call them 'trap door' items," Miller says.

Canny cost-management like El Pollo Loco's is the name of the menu-development game these days. Back-to-basics measures on food-waste reduction, cross-utilization and creative use of ingredients are recurring themes.

"We talk about the Golden Spatula a lot," says Dan Barash, director of research and development for Atlanta-based Moe's Southwest Grill. "It's like, 'Have you gotten that last bit of ranch dressing out of that jar or salsa out of that bag? Get out that Golden Spatula.'"

TRIM THIS, SAVE THAT

"This economy has forced us to rethink everything. We've looked under every rock to try to save money without losing quality," says Brian Hinshaw, vice president and executive corporate chef at Columbus-based Cameron Mitchell Restaurants, operator of two-unit Cap City Fine Diner and Bar, three-unit Marcella's, seven-unit Ocean Prime and a handful of one-off concepts. Hinshaw and team's efforts have paid off. "This has proven to be one of our best operating years ever," he says. "Though we've never done it before, this year we will hit our NIFO (net income from operations) goal of

Luxuries for Less

Commodity prices for steak, prime rib and lobster have been unusually low, allowing more concepts to include them on the menu.

For example, El Pollo Loco's new line of flame-grilled sirloin steak tacos and other items launch this month. The Sirloin Steak & 3-Cheese Quesadilla, $5.99, combines grilled sirloin with cheddar, jack and cotija cheese, guacamole and sour cream on a grilled flour tortilla. And the Sirloin Steak Bowl, $4.99, matches the meat with pinto beans, Spanish rice, pico de gallo, diced onion and cilantro.

In December, The Elephant Bar Global Grill and Wok Kitchen ran a $24.95 special at its 47 units featuring an 8-ounce filet and 6-ounce lobster tail, "made possible by the better prices," says Reinhard Dorfhuber, senior vice president of culinary and concept design for the La Mirada, Calif.-based casual-dining chain.

"We're also taking advantage of some of the low commodity costs on premium products," says Jim Doak, director of research and menu development and executive chef for Prairie du Sac, Wis.-based Culver Franchising System. Culver's Prime-Time sandwich promotion launches this month with a Philly-Style Shaved Prime Rib sandwich, $4.49, and a Prime Rib & Mushroom Melt, $4.69.

Doak says he's been able to source the meat at prices that are 10 to 15 percent lower than normal. Culver's tested the Philly-Style Shaved Prime Rib sandwich for eight weeks during the last quarter of 2009 as a replacement for the Angus Philly-Steak Sandwich. "The Shaved Prime Rib sandwich exceeded sales benchmarks of what it's replacing," Doak says. "Sales have been off the charts. The sandwich sold as well as our No. 1 Reuben Melt."

El Pollo Loco's new line of flame-grilled sirloin steak menu items—including the Sirloin Steak & 3-Cheese Quesadilla—launch this month, taking advantage of more-accessible meat pricing.

Thanks to low-commodity costs for premium products, Culver's Prime Time sandwich promotion launches this month with two prime-rib sandwiches, the Shaved Prime Rib and the Prime Rib & Mushroom Melt.

(Opposite) Director of Research and Development Jon Miller and Manager of Optimization and Innovation Nancy Cutler team up to balance food costs with innovation at El Pollo Loco.

Portrait by Stephanie Diani/Getty Images

Food-Cost BUCK

For the Cap City Fine Diner's best-selling Romano Crusted Chicken entree, the switch from a 6-ounce trimmed chicken breast to random breasts that the team trim in-house saves $50,000 a year.

Meatballs at Cameron Mitchell's three Marcella's restaurants used to be made with brioche loaves from which the crusts had been trimmed. Including the crusts lowered the cost by 7 cents per meatball.

21 percent. It really shows that counting your pennies matters."

Some of Cameron Mitchell's penny-pinching methods were simple; others, more complex. Marcella's meatballs, for example, which sell at the rate of 3,000 each week, used to be made with brioche loaves sans crusts. Leaving the crusts on the bread lowered the cost of each meatball by 7 cents. The 6-ounce meatballs sell individually as appetizers for $6.95 and with fettuccine for $13.95.

Meanwhile, for Cap City's best-selling Romano Crusted Chicken (three 3-ounce medallions, panko crusted and served with parsleyed angel hair pasta, tomato cream sauce and Romano cheese, $16.95), the switch from a 6-ounce trimmed chicken breast to random breasts trimmed in-house saved about $73 per 50 pounds of chicken. "We use 33,000 pounds of chicken a year for that one dish, so that's about $50,000 a year in savings," Hinshaw says.

Using the trim from the chicken added up to even better food cost percentages: Cap City grinds the chicken for an apple-chicken meatloaf. The Chicken and Apple Meatloaf Melt, $10.95, a sandwich that also includes smoked gouda, bacon, onion, baby spinach and pecan mayonnaise on grilled buttermilk bread, is now among the top 5 sellers at lunch and has a food cost of just 13 percent.

Similarly, for Ocean Prime, Hinshaw and team repurposed scraps of Alaska king crab from the knuckles of the crustaceans. The resulting dish, Alaskan King Crab Ravioli with Asiago cheese and toasted tomato cream, $21, is now among the top-selling entrees. While food-cost percentages are in the 33 percent range at Ocean Prime, this item runs at 22 percent.

CREATIVE CROSS-UTILIZATION

At Applebee's, creative cross-utilization has also helped cut cost. The chain's December-launched Wonton Tacos, $6.49—won-ton shells filled with barbecue pork—use the same protein that first debuted in the chain's February, 2009-launched BBQ Pulled Pork Sliders, $7.69. The twist of making tacos with won-ton shells gave the item added appeal in tests, says Kristie Sigler, executive director of menu strategy for Lenexa, Kan.-based Applebee's.

Sigler says 2,000-unit Applebee's main menu focus has been on introducing items like these that have bolder flavors and a real "wow" factor. She points out that even sparing use of bold and sometimes higher-priced ingredients goes a long way: "Asiago cheese for example. It only takes a tablespoon to make the Asiago Peppercorn Steak really pop."

Part of the chain's Under 550 Calories lineup, the $10.99 Asiago Peppercorn Steak, a 7-ounce grilled sirloin topped with cracked peppercorn and melted Asiago cheese, is one of several new lower-calorie entrees that include "unexpected" flavors, in portions big enough to be viewed as substantial.

Other options include the Grilled Dijon Chicken and Portobellos, grilled chicken breast topped with roasted red peppers, portobello mushrooms, Dijon sauce and cheddar, $9.49; and the Spicy Shrimp Diavolo, tomato-basil diavolo sauce with chile-seasoned shrimp and diced

BIG idea Applebee's built flexibility into the vegetable options unit operators can choose for the Under 550 menu. "They have four to six approved vegetable medley options, allowing them to leverage seasonality and lower cost that can come with that," says Kristie Sigler, executive director of menu strategy.

vegetables, served over whole-wheat penne pasta with Parmesan, $9.99.

"We had asked guests where we could improve, and they said we do a lot better with better-for-you options," Sigler says. "They didn't want them to be predictable or pedestrian."

Similarly, at Houston-based Joe's Crab Shack, Director of Culinary George Atsangbe says spending a little more for a pivotal item can balance out in the food cost equation due to higher sales volume. "We switched to fresh corn on the cob rather than frozen for our Steampots," he says. "It costs a bit more, but we get a lot of credit customer-satisfaction- and volume-of-sales-wise for using the fresh corn." Atsangbe can't give exact sales-improvement percentages.

Joe's Steampots, seafood boiled in a variety of seasoning styles and combined with potatoes, corn and sausage, first debuted in February, were revamped and expanded in June, and now are the 113-unit chain's best-selling entrees. They range from $20 to $40.

SMALL WONDERS

Looking at another cost-effective menu-innovation theme: "The 'right-size' movement is a win-win because these smaller sized items are more appealing to guests at the same time that they improve food cost," says Miller. For example, El Pollo Loco re-engineered and downsized its Queso Crunch Burrito (originally featured in 2008) for a 2010 promotion. In test now, the new 12-ounce burrito is 2 ounces smaller than the original. Built on a smaller tortilla, the new version substitutes crisp corn tortilla strips for the larger tortilla that was formerly used and eliminates some of the cheese.

Innovation comes with the use of more flavorful and 40 percent cheaper chicken thigh meat instead of chicken breast. Food cost is 10 percent lower than the original.

While El Pollo Loco plans to pass some of the savings on to the guest with a lower yet-to-be-determined menu

Spending a little more for a pivotal item ends up balancing out in the food cost equation due to higher volume. Joe's Crab Shack's switch to fresh corn on the cob rather than frozen for its Steampots gleaned better guest-satisfaction scores and helped bump up sales.

Even sparing use of bold and sometimes higher-priced ingredients goes a long way. Menu developers at Applebee's say it only takes a tablespoon of Asiago cheese to make the new Asiago Peppercorn Steak pop.

Applebee's Wonton Tacos use the same protein and sauce that first debuted in BBQ Pulled Pork Sliders introduced last February.

price, high volume is expected to make the item profitable. "We are selling a lot more of these in test than we sold of the original version when it was in test," says Miller, who adds that he hopes to use thigh meat in more menu applications.

ARTFUL ALLOCATIONS

No matter the size of the dish, menu developers have to find the right balance between cost and labor. "It's all about moving allocations around," says Sigler. Take Applebee's hamburgers: Instead of spending a premium for preformed patties, the company decided to allocate more toward labor, switching to made-to-order burgers in December 2008. The move "put more pennies into a better bun," says Sigler, and resulted in better quality hamburgers and, while she can't give exact percentages, higher sales.

It can also make sense to go the other way. At El Pollo Loco, making avocado salsa was a labor-intensive process that required measuring and mixing multiple ingredients. By having an outside company combine all of the spices into one pack, the company has improved consistency and quality of the salsa, reduced labor and reduced food cost on the item by 10 percent.

Menu developers say the cost benefits they've squeezed out during the difficult year just concluded will continue. "While we've always worked to keep costs down, the difficult operating scenario of the last year forced us to tighten things even more," Hinshaw concludes. "The beneficial changes we've put in place will now become standard operating procedure." ■

No Ordinary JOE

Restaurant chains, especially fast feeders, are **BREWING UP PREMIUM BEVERAGES** to meet the demand for top-notch coffee.

Polly's Pies, a midscale chain in Southern California, roasts coffee beans before delivering them to the restaurants, where they are ground and used within a day.

McDonald's emphasizes the origins of the hand-picked Arabica coffee beans that are the foundation for its espresso-based drinks.

Which beverage is more profitable, drip coffee or a fancy latte? It hardly seems to matter given the growing popularity of premium coffees, especially among young adults, in all forms—and even in a weak economy. (Still, if you want the answer, it's the latte; see the sidebar "Cost Structure.")

A November study from market researchers at Technomic Inc. in Chicago, for example, shows continued demand for high-quality coffee. In the firm's "2009 Breakfast Trends Consumer Trend Report," 34 percent of adults surveyed said they prefer to purchase coffee from "establishments that offer 'premium' coffee"; two years earlier, 29 percent said so.

The figure was higher for those ages 25 to 34: 40 percent preferred visiting eateries and coffee shops that offered high-quality coffee.

That age group is also drinking more coffee, according to a recent Mintel survey of 1,300 coffee drinkers. The online survey from the Chicago-based research firm indicates people ages 18 to 44 have upped coffee consumption in the past year, with the highest spike (37 percent) among 18- to 24-year-olds.

A Mintel survey last spring showed almost half (49 percent) of coffeehouse and doughnut shop users are spending less on coffee and coffee drinks than the prior year. That's been good news for fast-food restaurants, whose heaviest users fall into the aforementioned age groups and whose offerings are typically less expensive.

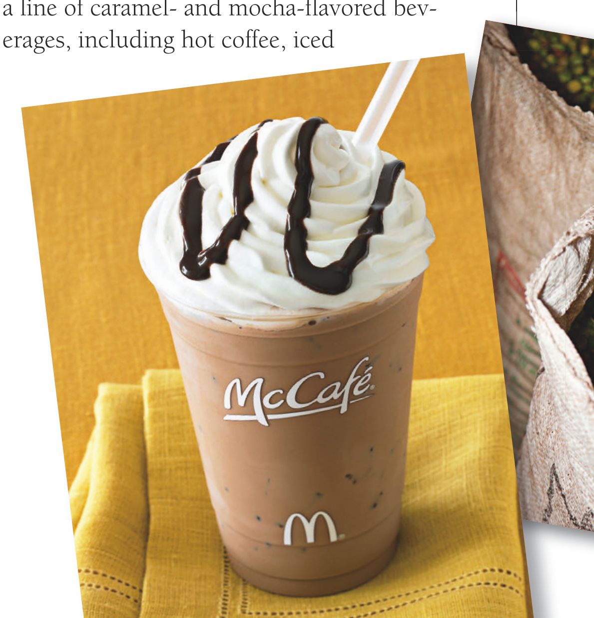
NEW AND IMPROVED

For several years the major players, most notably Oak Brook, Ill.-based McDonald's, have been upgrading their coffee offerings with positive results. In its third-quarter filing, for instance, the burger giant credited McCafe espresso-based coffees for helping to fuel a 6 percent increase in domestic operating profits.

Don Thompson, president of McDonald's USA, informed Wall Street analysts in November that the company's year-to-year coffee sales are up 28 percent in the United States. He added the bulk of those sales are from espresso-based beverages, including hot chocolate.

"McCafe is really growing because McDonald's keeps adding new products to the beverage platform," says restaurant analyst Mark Kalinowski, who covers McDonald's for Janney Montgomery Scott.

In September, 510-unit Del Taco introduced a line of caramel- and mocha-flavored beverages, including hot coffee, iced



Premium beverages like sweet mocha-flavored coffees are a critical part of the breakfast strategy at Del Taco.

coffee and a milkshake, aimed at teens and young adults. "The new Caramel Mocha hot and cold premium coffee drinks are cravable flavors that satisfy with a sweet indulgence," says John Cappasola, vice president of marketing, adding premium coffee is helping increase repeat visits.

The Lake Forest, Calif.-based fast feeder kicked off its premium-beverage strategy in early 2006 with Macho Roast Coffee, a bold brew served in 16-ounce instead of 12-ounce cups. The cup's heat sleeve boasted the new brew was a "bold, fresh roasted cup of coffee without romantic origins."

McDonald's has taken the opposite tack, hyping its offerings with the precision of a coffee geek. "Each McCafe espresso-based coffee starts with fully ripened Arabica coffee beans harvested by hand in Central America, South America and Indonesia," a July press release noted.

LATTE-FREE CHAINS

Unlike QSR chains, major midscale chains have yet to launch a premium-coffee offensive despite their strong breakfast daypart. Denny's, rumored to have a program brewing, doesn't even mention coffee on dennysallnighter.com, a Myspace-like Web site that promotes a late-night menu to young people.

Asked about a premium-coffee strategy, the Spartanburg, S.C.-based chain responds with an e-mail saying, "It's premature to discuss."

Meanwhile, Julie Davis, senior director of communications for Cracker Barrel Old Country Store, says the Lebanon, Tenn.-based chain is "not doing anything that goes beyond the regular 100-percent-Arabica-beans coffee we offer, with refills of course." Columbus, Ohio-based Bob Evans did not return calls seeking comment.

Consultant Dennis Lombardi of WD Partners in Columbus, Ohio, believes midscale chains are interested in expanding their coffee offerings but remain unsure if purchase occasions match up with their most lucrative dayparts. "If you are a full-service restaurant with a strong breakfast, it is not quite clear that's where you could make inroads," he explains. "Afternoon snack or evening might be the best time."

Eddie Sheldrake, who co-owns 15-unit family-dining chain Polly's Pies, was so enthusiastic about coffee he was an early investor in Coffee Bean and Tea Leaf, a Los Angeles-based chain founded in 1963 that today franchises 120 units. Sheldrake says he spent $4,000 a store to add specialized equipment. "We felt it was really important to have good coffee," he declares.

Sheldrake eventually sold out of Coffee Bean but maintained an interest in premium coffee. He purchased a 160-pound roaster and put his son, Michael, in charge of daily roasting. Thirty years later, the Anaheim, Calif.-based chain continues to serve coffee made from beans roasted the day before and ground in the restaurant.

Just don't count on the chain to try to raise the check average with dessert-like lattes, iced mochas or smoothies. "We think coffee drinks are real important, but I've got to concentrate on selling iced tea," he asserts.

Iced tea?

It leaves room for pie, Sheldrake says. ■

Cost Structure: Drip vs. Latte

Latte is more profitable than a cup of drip coffee.

DRIP

Coffee per cup (using 5.25 ounces of coffee to make 8 12-ounce cups in airpot): 29 cents
12-ounce cup: 7 cents
Lid: 4 cents
Sleeve: 2 cents

Cost of goods sold: 42 cents
Sale price: $1.45
Revenue: $1.03
Profit margin: 71 percent

LATTE

Two shots of espresso (9 grams per shot at $7 per pound): 18 cents
8 ounces milk (at $4 per gallon): 24 cents
12-ounce cup: 7 cents
Lid: 4 cents
Sleeve: 2 cents

Cost of goods sold: 55 cents
Sale price: $2.85
Revenue: $2.30
Profit margin: 80 percent

Source: coffeeforums.com; Black Dog Coffeehouse, Lenexa, Kan.

The Young Embrace Coffee

In September, 21 percent of adults told researchers they drank less coffee than the year before, but 37 percent of 18- to 24-year-olds are drinking more.

	All	18-24	25-34	35-44	45-54	55-64	65+
More coffee than last year	17%	37%	29%	22%	11%	9%	5%
Less coffee than last year	21	24	23	17	22	23	17
About the same amount	61	28	48	62	67	68	79

Source: Mintel, "Coffee—U.S.," December 2009

An integrated POS system coupled with a Web-based food-management program keeps Noodles & Company's **FOOD WASTE TO A MINIMUM.**

Doubling UP

A prep-and-pull function enables Noodles & Company staff to prepare just the right amount of product, based on daypart sales forecasts.

"Math class is tough!" Teen Talk Barbie infamously exclaimed a dozen years ago. For some, math is difficult, and it's also a time-waster for restaurant managers, who can do their jobs more effectively when not tied to a computer terminal.

That's why Noodles & Company installed a Web-based food-management application in all 186 company stores and 30 of its 43 franchised locations more than three years ago. The Broomfield, Colo.-based fast-casual chain, which serves Asian, American and Mediterranean pasta dishes, had been using another system. However, that system fell short in several areas, including general reliability, says David Lehn, vice president of information technology at the chain.

WORKING TOGETHER

The Web-based application is integrated with the restaurants' POS systems; the two work together to keep food costs and waste in check.

The POS system tracks daily sales information: how many of each menu item is sold each day. That information is automatically loaded to the Web-based application every day. Using that information, the food-management system can tell how much of each food product—pasta, produce, protein—should have been used that day.

Every day, Lehn explains, store managers hand-count inventory of nine key items, and every week they hand-count more than 50 key items. Actual inventories are compared to the food-management system's theoretical inventory.

"Armed with that information—how many were sold in theory, how many ingredients were depleted, vs. how much were counted on hand—that's where we get to waste," Lehn says.

Over- or underportioning, "sweethearting" or undercharging at the register, incorrect cooking methods and spillage can all result in actual numbers that don't match theoretical numbers.

Food waste has dropped by 40 percent since Noodles & Company installed the system in 186 company and 30 franchised stores three years ago.

JUST ENOUGH

The system also has a "prep and pull" function, which tells staff how much product to pull from storage and prep based on daypart forecasts. Store managers run prep-and-pull sheets twice daily to get sales forecasts for each daypart, then staff prepares food accordingly. The system cuts waste in that little extra product is pre-prepped; it also "lets us serve the freshest food possible," Lehn says.

Using actual and forecasted sales information, the system also prepares orders for each store. "It does all the math, so ordering doesn't have to become an art for the general manager," Lehn says. Orders are automatically sent to distributors, and invoices are handled on the corporate level.

MOTIVATED MANAGERS

The application cost $400 to $500 per store to install, and Noodles & Company pays a monthly licensing fee to its manufacturer. Still, the system has paid for itself, cutting food waste by 40 percent over the last two years and "certainly improving" food costs, Lehn says.

He credits not just the Web application, but store-level changes that it prompted such as increased focus on portioning, and inaugurating a consistent inventory-counting method.

"A lot of times folks would say, 'How fast can I get done with this weekly inventory?'" Lehn recalls.

It's also helped that general managers' quarterly bonuses are tied to how well they control waste. Weekly reports from all the stores are circulated systemwide, so managers can compare their stores' performance against others'. "That's how you really get someone's attention," Lehn says. ■

Mobile APP-TITUDE

Smartphone apps help restaurant chains strengthen their brand identity while **CONNECTING WITH CUSTOMERS** in a fun and engaging way.

Smartphones account for 11 to 12 percent of all mobile handsets sold globally, according to MobileMarketing.com. And, after text messaging, accessing the Web and downloading represent the No. 2 and No. 3 activities performed on mobile phones, according to the Interactive Advertising Bureau.

Many chains have mobile-friendly Web sites. But mobile apps use less phone memory and energy, making them easier and faster to use. Apps also allow a gaming element, adding entertainment value to the experience. But it doesn't help to create an app for app's sake. It should engage customers and match the way they like to receive information, while at the same time strengthening brand identity.

PIZZA HUT

What it does: Users build their own virtual pizzas, selecting and dropping toppings onto the crust; if the user adds too many toppings, the pizza explodes and the toppings fly across the screen. Users can also order WingStreet Wings and Tuscani Pasta, play a Pizza Hut Racer game, and take advantage of coupons displayed on a refrigerator door.

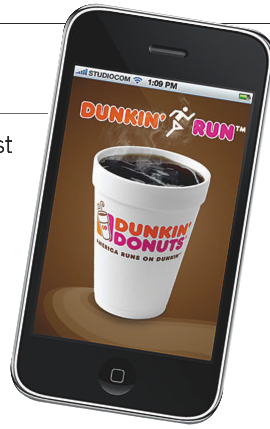
Why: The app was created to provide a fast and convenient ordering system as well as connect with younger and tech-savvy users looking for entertainment value. Three months after its August launch, the chain had sold $1 million in downloads. At press time, Director of Communications Chris Fuller did not have further information.

MYSTARBUCKS, STARBUCKS CARD MOBILE

What it does: myStarbucks allows users to search for the nearest location, and store their favorite coffee concoction and share it with others for group orders. The app also offers nutritional information and a function to select coffees based on flavor (nutty, mild, earthy, etc.). Starbucks Card Mobile is an electronic version of a debit card. Customers put money in the account and then pay with a touch at the store.

Why: In the first week of their launch in September, both applications were top-rated in Apple's AppStore Lifestyle category, and the coffee chain exceeded 500,000 in combined downloads, according to a Starbucks spokesman.

DUNKIN' RUN



What it does: Customers can search for the nearest store and initiate a group order. Alerts are sent to the coffee runner's list of friends and co-workers about the trip, inviting them place their order.
Why: Dunkin' Donuts created the app to bring added convenience, speed and fun to regulars, says Cynthia Ashworth, vice president of consumer engagement, as well as to drive traffic and strengthen the "On the Run" brand identity.

LONGHORN

What it does: Shows a steak getting cooked over hot coals with a sizzling sound and steam and flames emitting from time to time. Users can shake the mobile device to flip the steak until cooked to desired doneness. It can even be viewed in 3D, if the user has the glasses.
Why: The app, which launched last summer, wasn't intended to drive sales or store traffic, but to boost brand awareness as the chain expands into new markets, says Rich Jeffers, director of media relations: "Longhorn's creative team wanted simply to create something fun for customers that would provide added entertainment."

CHIPOTLE ORDERING

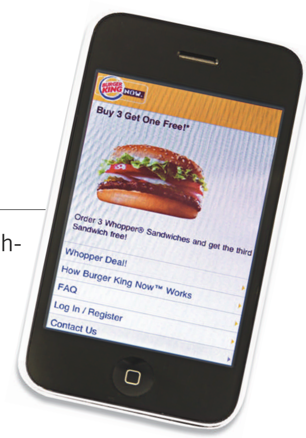
What it does: Customers can order and pick up food without waiting in line at all stores nationwide. The app walks users through choosing the item, protein, fillings and sides.
Why: The app was created to streamline ordering, enhance speed of service and create customer loyalty. Communications Director Chris Arnold says since it launched in August, the app has been downloaded more than 1 million times. "Our iPhone ordering app has been hugely popular," Arnold says. "We launched it to give our customers a new way to engage with Chipotle, and they are doing just that in very significant numbers."

HARDEE'S IBURGER

What it does: The app shows a Hardee's Thickburger being eaten as the user makes munching sounds into the mobile phone's microphone.
Why: Hardee's created the app to better connect with its core customer: 18- to 34-year-old men, says Jenna Petroff, public relations and social media manager. "We realized that a mobile app would be a good place to meet our customer

since our customers are becoming increasingly harder to reach through traditional media, and because they are among the first to adopt the latest communications channels and gadgets," she says. It's also cheaper, at $12,000. Petroff claims the chain has received a lot of feedback from pleased customers since the app's April launch, but she can't cite metrics.

BURGER KING NOW



What it does: The app automatically searches for the nearest Burger King and allows users to place and pay for orders before reaching the store, where they can skip the line and pick up their food. Available only in New York City.
Why: Burger King won't discuss the app's progress or potential release dates for cities outside New York. In a statement released when the app debuted, the chain said it was meant to boost traffic, reduce in-store lines and build loyalty.

TACO BELL'S WHY PAY MORE SHAKER

What it does: The app calculates menu items according to how much money users have in their pockets. Users enter the amount of cash they have, and a shaker function resembling a slot machine rolls through menu items that the user can afford. The app also locates the nearest store.
Why: Taco Bell wanted to connect to younger users; build dayparts, including late-night, with on-the-go patrons; and emphasize its lower-priced options. Taco Bell will not release results.

"Be a Birthday Hero" *Length: 30 seconds*

1. Mom: I think it's working.

2. Wow. His friends think he's the hero.

3. He thinks I'm the hero.

4. I am the hero!

Pizza PARTY

America's Incredible Pizza Company launched a TV ad campaign to show customers in new markets **WHAT GOES ON INSIDE ITS FOUR WALLS.**

It is every hostess' private nightmare: What if you throw a party and no one shows up? That's exactly the scenario America's Incredible Pizza Company wants to prevent. The Springfield, Mo.-based chain is known as a location for birthday parties, for both kids and adults, in the Midwest and South, and is in the process of expanding into new geographic markets, including Salt Lake City in 2010.

The chain describes its space as a 70,000-square-foot "fairgrounds of fun," a concept that executives concede is "hard to fit on a direct-mail mail postcard." With bowling, laser tag, indoor Go Karts and other games, as well as a menu that is more than just pizza, the concept is more nuanced than its name suggests. And most locations feature a large blue exterior wall, making it difficult for newcomers to peek inside.

"The No. 1 reaction people have when they come in for the first time is, 'We had no idea all this was here,'" says Chris Brewer, executive vice president of marketing for the chain. "We have to get people behind the wall."

To get folks behind that wall and get them to book and attend the parties Incredible Pizza is throwing, the regional chain, despite a self-described conservative approach to marketing, launched a new ad campaign in 2009 with two television commercials.

Brewer had not been a big proponent of TV advertising, having relied on direct mail for most of his career. "But TV pulls back the veil," he says. In this case, the team thought TV would give Incredible Pizza a broader reach, particularly when used in conjunction with direct mail and promotions with restaurant.com as it entered new markets.

NOT JUST FOR KIDS

"When you think of pizza, you know what you are going to get," Brewer says. "But as a new

SNAPSHOT

Concept America's Incredible Pizza Company
Headquarters Springfield, Mo.
Units 18
2010 Systemwide Sales $30 million (company estimate)
Average Check $15
Ad Agency Revolution Pictures, Nashville, Tenn.
Expansion Plans 2 in 2010

5. I may be the world's coolest mom!

6. Voice-over: Be the hero.

7. Bring your party to the Incredible Pizza Company, where nothing tops our pizza but the fun.

8. Incredible Pizza Company. Nothing tops our pizza but the fun.

company (founded in 2002), people do not know us. It is sort of like The Cheesecake Factory. If you have not been there, you might think they are just cheesecake. People think we are just pizza." In fact, the Incredible Pizza menu, which drives an average check of $15, includes an extensive salad bar, soups, pastas, sirloin tips, lasagna and other options in addition to pizza.

One of the chain's new spots is called "Be a Birthday Hero," and Brewer says it makes an important distinction between Incredible Pizza and its eatertainment competitors.

"Some of our competitors focus on the child in the ad. Based on where they advertise, I understand; but it is not the kid who is spending $100 on a birthday party," he explains. "We try not to lose touch with the kid, but we try to make Mom the birthday hero. Mom does not want a birthday disaster."

The ad shows Mom feeling like her birthday-party pick is a success, void of any disasters, and shows the variety of activities at the chain. The other spot, "Family Fun," pitches Incredible Pizza as an alternative to a backyard barbecue where Dad chars the wieners on the grill.

READY FOR PRIME TIME

Incredible Pizza and its CEO have traditionally been conservative when it comes to ad spending, Brewer says, but a number of factors made 2009 the year to try something new. New units, in Urbandale, Iowa, and Indianapolis, made good test markets for advertising the concept in new markets and made it easier to measure awareness and success than it would have been in a market where it already had restaurants.

The economy made vendors willing to negotiate. The chain took advantage of discounted cable media buys, and the ad agency with which the chain worked, Revolution Pictures in Nashville, Tenn., made the film shoot as efficient as possible. Both TV spots were shot in one day, and some of the media buys amounted to just $2,000 for 300 spots on cable (compared to an estimated $2,000 for 10 spots on network TV).

Incredible Pizza chose media buys to get as much frequency as possible, airing on Animal Planet, ABC Family Channel and the Cartoon Network.

The company has 18 units, the majority of which (12) are franchised, and franchisee interest in TV ads also contributed to the decision.

GETTING THE WORD OUT

The chain, which estimates 2009 systemwide sales at $30 million (and predicts they will be flat for 2010), plans to step up its TV advertising in 2010, adding more markets to the lineup, thanks to the initial results. It conducted exit surveys in Indianapolis over several weekends after the ads aired and found that more than 60 percent of customers were first-time visitors who had seen the TV spots, which had been reinforced with direct mail with the same message.

"The results of TV can be hard to measure," Brewer adds. "And it can be hard to measure success in terms of how well new stores have done in a brutal economy. But we think that when TV is underscored with direct mail, combined they can be pretty powerful." ■

Survival TACTICS

Chain executives attending the 6th annual **CHAIN LEADER LIVE** conference discovered some good ideas for thriving in a bleak economy.

"Leadership should create energy, to win, not just to survive as a business," announced former Carlson Restaurants Worldwide CEO Richard Snead during *Chain Leader LIVE*, held in Denver, Oct. 28-30.

Easy for him to say.

Snead, who left the Dallas-based restaurant company last spring, is now a restaurant industry consultant. The executives who remain in the trenches were struggling with a serious consumer pullback.

But Snead didn't shrink from explaining how to summon such energy. He advised the group to do what you say you'll do, balance capability with capacity and be a tenacious problem-solver.

NO PROBLEM

Examples of problem-solving were in abundance during two dozen operator presentations, which ranged from marketing to menu development to cost-cutting.

On the branding panel, Fazoli's CEO Carl Howard described how management measured and then halted "migration" away from the aging Italian fast-casual concept. The strategy including updating Fazoli's menu and decor.

New marketing, Howard said, focused on heavy users. But officials discovered new menu language was an issue. "'Pesto' was stretch," he added, so Fazoli's calls the sauce "creamy basil." Nonetheless, research showed a "more sophisticated user" has been attracted to the concept's remodeled units.

During the session, PUSH ad agency CEO John Ludwig discussed how 68-unit Smokey Bones Bar & Fire Grill attracted younger, hipper customers by re-energizing the brand. Tactics included a more food-friendly bar featuring small plates and a Web site that introduces the hostess at the chain's nearest outpost.

POLITICAL ALLY

Denver Mayor John Hickenlooper described the struggles he had opening Wynkoop Brewery, Colorado's first brewpub, in 1988. Rent in the historic J.S. Brown Mercantile building was dirt cheap, he recalled, but that was because the site was far off the beaten path.

Hickenlooper, who eventually opened several brewpubs across the country, added that everything he learned about running a big city came from his years as a restaurateur. "There's often no money, too many demands on your time, and someone always wants something," he said.

Richard Satnick joked that his former career as a primatologist helped him understand the restaurant business—in particular Portland, Ore.-based Laughing Planet Café, which he founded in the early 1990s.

Satnick was part of the Emerging Concepts panel featuring four small chains, each of which had latched onto a current trend. In the case of vegetarian-friendly Laughing Planet, it is healthful, locally sourced foods.

STRATEGIC DIRECTION

In a panel discussion on people, Golden Corral Vice President of Human Resources Judy Irwin described how the goals of her department support the chain's business direction. That leadership is crucial to her department's success, she maintained: "HR issues start with the CEO's priority concerning people."

Later, three CEOs offered a view from the top. They agreed that in this operating environment, management must take a long-term approach, using tight financial controls to ensure survival. One method of controlling costs is to hire a lease-negotiation specialist to make sure your company is getting the best rent deals possible.

But beware of pricing issues, warned CEO Jeffrey O'Neill of Einstein Noah Restaurant Group during the CEO Panel. Noting it was tempting to raise prices to maintain margins as sales dropped, he said traffic could suffer. ■

1. Former Carlson Restaurants Worldwide CEO Richard Snead told attendees, "Leadership should create energy, to win, not just to survive as a business."

2. Laughing Planet Café founder Richard Satnick was one of four innovators on the Emerging Chains panel.

3. A branding panel was moderated by *Chain Leader* blogger and veteran restaurant marketing executive Karen Brennan.

4. The People Panel challenged attendees to involve human resources leaders and priorities in company strategy.

5. Speakers and panels took plenty of audience questions.

6. Denver Mayor John Hickenlooper shared the ways running a restaurant company trained him to hold a political office.

7. Chain leaders on the CEO panel discussed how to control costs while focusing on long-term goals.

8. Denver-based concepts served their popular menu items at the Local Heroes reception.

9. Formal networking events and breaks gave industry leaders the opportunity to get to know new contacts.

10. Keynoter Pete Coors took the time to meet with attendees at the Local Heroes reception.

on the web: Check out ***www.chainleaderlive.com*** for photos, videos and highlights from *Chain Leader LIVE*, plus information about next year's event.

FULL SPECTRUM

Litetronics' Micro-Brite line of cold cathode light bulbs save up to 85% on energy costs and dim to 5% of their light output in existing dimmable fixtures without changing decor. Because these bulbs do not require any additional equipment, there are no additional costs when switching to Litetronics energy-efficient lighting. The bulbs are available in a variety of wattages and shapes. For more information, call (800) 860-3392 or e-mail customerservice@litetronics.com. **Litetronics International**

COCKTAIL HOUR

28%

Average percentage of restaurant operators' alcoholic-beverage sales that come from liquor and cocktails, according to *Restaurants & Institutions'* 2009 Beverage Census.

SIDELINE OPTIONS

The creamy texture and subtle, nutty flavor of Fresh Hass Avocados complement other ingredients to create memorable dishes. Prepare for 2010's Big Game Day with recipes such as Avocado Shrimp Cocktail and Avocado Salmon Club Sandwich; get more in a free copy of the *Foodservice Guide to Fresh Avocados*. For more information, call (949) 341-3250. **Hass Avocado Board**

SLIDE IN THE FLAVOR

Tyson Charbroil Beef Patties are fully cooked 1-oz. charbroiled beef patties and have been proven highly versatile menu favorites optimized to deliver higher perceived value and lower food cost. Capitalize on the popularity of mini sandwiches with recipes such as Bistro Charbroiled Sliders & Fries. For more information, call (800) 24-TYSON or visit www.tysonfoodservice.com. **Tyson Food Service**

WASTE-FREE WASHING

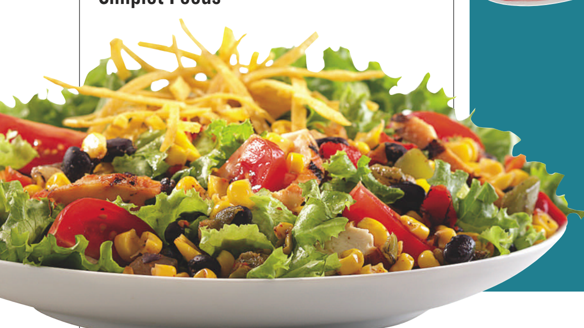
The Electronic Cassette Skin Care System is available with a complete line of Kleenex brand luxury foam skin cleansers, including a fragrance- and dye-free Green Seal-certified formulation, antibacterial, E-2 rated and instant hand sanitizers. Its touch-free dispensing and sealed soap system prevent contamination of the soap and reduces waste. Used cassettes are easily recycled. For more information, visit www.kcprofessional.com. **Kimberly-Clark Professional**

TWO-PLY CONVERSION

Because the EasyNap two-ply napkin can be used with all EasyNap napkin dispensers, operators can immediately convert to the new product and continue promoting healthy hygiene while offering a napkin with a clean, upscale feel. EasyNap napkin dispensers are available in five styles and a variety of colors. For more information, call (866) HELLO GP or visit www.gppro.com. **Georgia-Pacific Professional**

PITCH THE PREP

Pre-roasted, perfectly seasoned and individually quick-frozen, Simplot RoastWorks vegetables and fruit are exceptional-quality alternatives to scratch-made ingredients and sides. Visit Simplot's new To Hell With Prep Web site for a cost-savings calculator, recipes and a chance to win a weekend trip for two to Hell's Kitchen, N.Y. Deadline for entry is April 15, 2010. For information, visit wwwtohellwithprep.com. **Simplot Foods**



Liquid Assets

SELF-SERVE ESPRESSO

Starbucks' new Verismo Touch Self-Serve Espresso Beverage Machine offers freshly ground, authentic Starbucks espresso beverages quickly and easily, and can be operated by customers or staff with minimal labor or waste. Contact your Starbucks Foodservice representative for information or to order. **Starbucks Coffee**

BERRY BENEFIT

Acai Berry and Raspberry Topping from J. Hungerford Smith combines antioxidant-rich acai berries with the sweet flavor of raspberries for a tangy topping without artificial flavors or high-fructose corn syrup. Its smooth consistency and balanced flavor profile make it a natural for shakes, parfaits and smoothies. For more information, call (800) 357-6543 or visit www.conagrafoodservice.com. **ConAgra Foodservice**

TURN ON THE JUICE

Try new drink recipes featuring Sacramento Tomato Juice, such as Bloody Orange Mojito (with orange juice, rum and club soda) and Mango Tomango (with mango puree, orange juice and tequila). *The Sacramento Bar Drink Recipe Booklet* includes a trial-offer coupon of $10 rebate per case ($60 maximum). For more information, call (888) 926-7028, ext. 45 or visit www.redgold.com/fs/coupons. **Red Gold**

ALMOND JOE

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COMPANY & PEOPLE INDEX

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

/by monica rogers

Zócalo Group President Paul Rand says restaurant chains need to learn to build online commentary into their communications plan.

The Virtual Focus Group

Social media can turn a local test into a national discussion, but it is also a source for real-time feedback on new menu items.

The quiet, one- or two-store menu test is no longer so quiet. Now an operator puts a test item in a store one day, and the Internet makes it national news the next. *Chain Leader* discusses the benefits and drawbacks with Paul Rand, president of word-of-mouth and social-media marketing agency the Zócalo Group, a division of Omnicom and Ketchum PR, and current president of the Word of Mouth Marketing Association, a national organization made up of more than 450 brands.

Tell us about your index that measures casual-dining restaurant popularity based on your readings of positive and negative comments on blogs, message boards and social-media sites.

Zócalo Group and our partner inside Omnicom, MARC Research, created the Recommendation Index because in the word-of-mouth space, restaurants are the business most driven by recommendations. We wanted to figure out the big reasons behind people's comments for and against a restaurant.

What are some of the themes you saw?

On the positive side: "fast," "efficient," "friendly," "fresh," "good food." Negatives included: "slow," "dirty," "not fresh," "greasy." A good 70 percent said something about the food. Things that were truly innovative really got people talking.

So innovation does matter.

Unquestionably. Innovative new ingredients and presentations drive spikes of attention.

You have said that message boards, social-media sites and blogs are like a 24/7 focus group. How many chains are really looking at it that way?

Six months ago, restaurants questioned whether they could take advantage of social media and if it would impact their business. That question is off the table. Now restaurants are beginning to listen, realizing that the insights can be an incredible contributor to menu development and menu testing.

What are the ups and downs?

There are no secrets anymore. A restaurant may want to try something in one area but not another. But you can't very well say, "Don't talk about it."

You have to understand that whatever you do is going to be social almost immediately. You can either be concerned about that or you can figure out how to work that to your advantage. If you've got a great product, that wonderful spark and that attraction is really going to come along. But if it has limited appeal, you're going to hear that as well. Then you have to figure out how to manage through some of that negative commentary.

So, positive posts can create a powerful buzz, viral impact can be huge, lots of free opinions…anything else?

The genie is out of the bottle. Consumers expect now that there is going to be some degree of connection, of listening, talking, sharing, from the brands that they like. Restaurateurs have to figure out how to take advantage of that and make it part of day-to-day business. There still is another six months to year window while those who are actively doing this ahead of competition will get some advantages. ■

ON THE WEB: Listen to a downloadable extended interview with Paul Rand at ***www.chainleader.com.***

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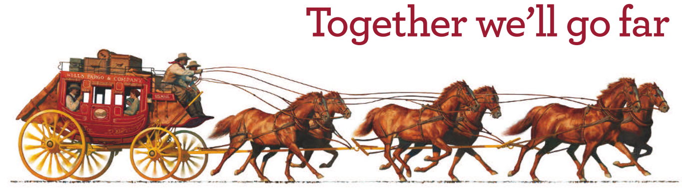

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