

Chain Leader®

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Information

December 2007

INSIGHT FOR RESTAURANT EXECUTIVES

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**Huddle House sells by
helping customers save.**

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**Rockin' Baja Lobster's
tropical murals and
finishes are beachy keen.**

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Up for the CHALLENGE

CEO Bob Hartnett has prepared
Houlihan's for tough times.

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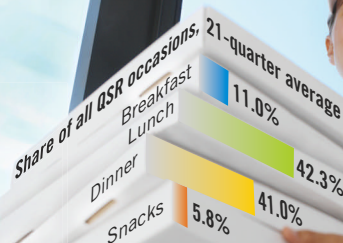
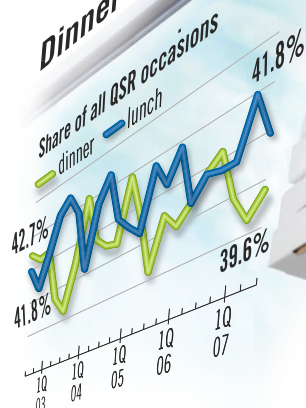


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In the evening, a quick-service meal often means pizza.

Dinner Business



WHAT'S FOR Dinner?

By Mary Boltz Chapman

Quick-service dinner trends tend to mirror pizza-segment trends. National pizza chains receive 17.4 percent of all past-month purchase occasions, a 21-quarter average shows, but they garner fully 29.1 percent of past-month dinner occasions, according to the quarterly Quick-Track survey by Sandelman & Associates, a San Clemente, Calif.-based research firm.

- 38.1 percent of fast-food users who had dinner on their last occasion had pizza; 23.8 percent of all users did. 19.3 percent of those having dinner on their last visit ordered a burger.
- Dinner comprises 41.0 percent of all fast-food occasions, according to a 21-quarter average; lunch receives only a slightly greater share: 42.3 percent. Breakfast makes up 11.0 percent of QSR occasions; snacks, 5.6 percent.
- Of customers eating dinner on their most recent occasion, 36.3 percent used carryout; 24.7 percent used the drive-thru; 20.8 percent ate in

the restaurant; and 18.3 percent had their meal delivered. Of all users' last QSR occasions, 31.8 percent were carryout; 30.0 percent, drive-thru; 27.5 percent, eat-in; and 10.7 percent, delivery.

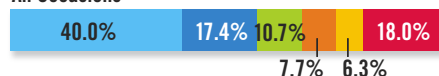
- A 21-quarter average shows that fast-food customers having dinner on their last occasion paid more per person than the all-occasion average: \$5.21 vs. \$5.00.
- 26.8 percent of those having dinner used a special deal or promotion; 20.2 percent of all QSR users did.
- 26.3 percent of users who had dinner on their last QSR occasion did so on a Friday. 21.8 percent of all users' most recent occasions were on Friday.
- According to a 21-quarter average, 40.0 percent of respondents whose most recent QSR meal was dinner were with their spouse, and 35.1 percent came with their children. Of all fast-food users, 29.6 percent were with their spouse on their last occasion, and 27.1 percent were with their kids. ■

Segment Share

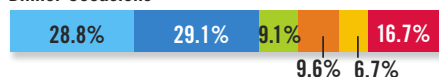
Share of past-month purchase occasions, 21-quarter average



All Occasions

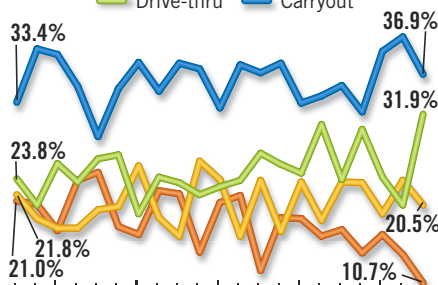


Dinner Occasions



Carried Home

All QSR users whose meal was dinner on their last purchase occasion



Methodology Customer trend data is based on the quarterly Quick-Track survey by Sandelman & Associates, a San Clemente, Calif.-based research firm. Quick-Track queries a nationally representative sample of 600 fast-food customers on a host of demographic and usage questions. The firm defines "QSR dinner users" as those who have purchased dinner at one of the tracked QSR chains at least once in the past month. Most-recent purchase data is based on all QSR users whose last QSR purchase was at dinner.



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INSIGHT FOR RESTAURANT EXECUTIVES

Vol. 12, No. 12/December 2007



■ thought leader

Up for the Challenge 64

Houlihan's Restaurants, like much of the casual-dining segment, is feeling the effects of rising energy prices and falling home values. Until August, comp sales remained positive, but they have since tailed off. CEO Bob Hartnett spoke to *Chain Leader* about the plans the privately held company has in place, including new menus and prototypes, to deal with these economic challenges.

By David Farkas

■ storyboard

Savings Plan 20

Huddle House shows off its new menu and new food photography in two 15-second TV commercials. While the spots communicate that the 24-hour diners offer meals a step up from typical quick service, they still highlight the company's core value proposition.

By Margaret Littman

■ idea to rollout

Crunch Factor 23

Not your average chicken finger, O'Charley's new version gets a pretzel coating and mustard sauce. The new twist on a classic combination is the chain's most successful new product of 2007.

By Monica Rogers

■ restauratour

Beachy Keen 58

The Rockin' Baja Lobster in Las Vegas evokes a festive, tropical atmosphere with a cartoon-like lobster painted into the stained-concrete floor, faux parrots swinging from perches, colorful murals and a palapa-topped bar. The company expects the unit to generate \$3.5 million in sales.

By Lisa Bertagnoli





■ food safety

Early and Often 70

Fatz Cafe has created a food-safety program that permeates every level of the company. The program includes training unit employees on food-safety as soon they are hired to operators building relationships with inspectors to learn how to improve their food-safety initiatives.

By Mary Boltz Chapman

■ the learning organization

Doing it Better 74

About 160 restaurant executives attended *Chain Leader LIVE* in October in Newport Beach, Calif., to network and listen to industry leaders discuss topics ranging from expansion abroad to culinary trends, with special attention paid to execution.

By David Farkas

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How to Grow to 100 Units

- Don Vlcek of Marco's Pizza provides 10 tips for working with suppliers
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- Veteran franchisor Tom Wilscom explains how to develop credibility to sell your franchise

Plus

- Senior Editor David Farkas muses about the restaurant industry in his blog, Dave's Dispatch
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Chains' role within the industry is transforming, so *Chain Leader* is evolving to meet changing needs.

POWER Play



Mary Boltz Chapman
Editor-In-Chief

We find when we talk to chain leaders that, while there are some egos, most executives—at all career levels—are hospitable to the point of humility, focused on the needs of their employees and their customers. They might not have noticed how powerful they have become.

Chains make up more than 60 percent of sales in the restaurant industry, according to Technomic. In the short time since our young magazine debuted in 1996, chains have evolved from a large industry segment to a leading force. Thanks to chains' marketing and operations improvements and innovations, the industry is becoming more efficient and effective.

As a result, their business imperative has changed. Today it's all about brand differentiation and

the ideas that drive it. Chain operators are trying to interpret consumer trends, find or create best practices, and innovate with new products, operating systems, customer communications and people practices—all to offer a unique selling proposition to bring customers into the restaurants.

Tell Me What You Want

This year *Chain Leader* completed substantial qualitative and quantitative research with readers and other stakeholders about their changing information needs and how well those needs are being met, and about our brand and its position.

Based on what we learned, we have some new changes at *Chain Leader* beginning in January. I think they're pretty exciting, so I wanted to give you a sneak preview.

First, we were happy to confirm that readers and advertisers like the magazine and feel it has credibility. You appreciate the depth of coverage, the writing style and the high-quality production values. And you say you read it, which is half the battle. We have a lot of great things going for us.

We also found that you don't always find the type of information you're looking for, such as new product ideas, consumer insights

and tomorrow's industry trends.

So we are changing our position to meet those needs and to be your definitive source for forward-looking insights to build brands. We'll still target our executive audience of multiunit managers up to CEOs and owners. We'll still find ideas from and address the needs of chains of all sizes including local, regional and innovative large chains. The difference will be an emphasis on the latest ideas, innovations and insights, based on consumer research focused through a chain lens.

Different Is Better

When you get the January issue, you won't see an executive on the cover, which has been one of our hallmarks. Instead you will see an environmental shot incorporating people, product and action. Rather than highlight a personality behind a chain, it will underscore an innovation or initiative. You'll also see a new logo, fonts, design, color palette and more to reflect our trend-forward content.

Our Web site, www.chainleader.com, is getting a makeover as well to serve the topics you told us you needed. It will have new daily news sources, industry resources, blogs, easier feedback mechanisms and more features as the year goes on.

And, of course, our *Chain Leader LIVE* event will reflect the updated position and topics as well.

The last several months have been an exciting time at *Chain Leader* as we've been researching, planning and executing this significant step in our evolution. Please let me know what you think of the new content and design, in print and online. We'll continue to seek your feedback, so we can keep up with your powerful transformation. ■

I welcome your feedback. Contact me at
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Operators and analysts share tips and warnings about returns and raising capital.



Jimmy John's founder Jimmy John Liautaud (l.) explained how he attracted a private-equity partner.

Show Me the MONEY

By David Farkas

Among the two dozen sessions at the Restaurant Finance & Development Conference last month at Caesar's Palace in Las Vegas was an unusual video presented by Texas Roadhouse founder W. Kent Taylor.

Recorded several months before the company's October '04 IPO, it chronicles the road shows and meetings Taylor, CEO G.J. Hart and COO Steve Ortiz endured to drum up excitement for the upcoming event.

Endured might be too strong a word. For most of the tape, the trio is mugging for the camera, mocking investment bankers and snoozing in a private jet. When the ordeal is over, they break out tequila.

Their self-indulgence almost seemed out of place amid the industry's financial types, who typically huddled outside meeting rooms, chatted quietly on cell phones or listened intently as speakers detailed the financial underpinnings of the restaurant business. Among topics covered were investor sentiment, interest rates and financing start-ups.

Do the Math

Speaker Brad Saltz of SS&G Financial Services, for example, detailed a benchmarking study that showed the importance of using sales-to-investment ratio to measure the efficiency of capital. His economic model for restaurants looked like this:

$$\frac{\text{Sales}}{\text{Investment}} \times \frac{\text{Return}}{\text{Sales}} \times \text{Leverage} = \text{ROI}$$

"Owners, operations and finance all contribute to the high returns enjoyed by successful restaurants," Saltz declared.

Successful restaurants—particularly

casual-dining—are in short supply if bearish Wall Street analysts are to be believed.

Piper Jaffray's Nicole Miller noted raising prices will be tough for concepts that are not differentiated. "Some with more of a value proposition or an emerging chain with high quality can pass pricing onto customers," she asserted.

Surprisingly, Larry Miller of RBC Capital Markets claimed the relationship between declining sales and traffic at restaurants and spiking gasoline prices was tenuous at best. "It's a weak relationship," he said. "I don't see the connection."

Allan Hickok, managing director for Houlihan Lokey Howard & Zuken in Minneapolis, disagreed. "There is a direct correlation between the price of gasoline and energy and personal disposable income," he insisted. "Gas goes up and traffic goes down."

Borrowing Money

There was little disagreement about the rigors of raising capital in a later panel discussion. Moderators Rod Guinn and Nick Cole, both of Wells Fargo, asked operators how they prepared for a transaction.

Jimmy John Liautaud, who recapitalized Jimmy John's in March, admitted he hadn't. "The majority of our focus was on operations, making sure everything worked and was measurable," he explained.

Yard House Restaurants President Harald Herrmann said when founder Steele Platt and early investors structured the original investor deal they included a roll-up provision. "It wasn't an easy process," he added. The chain sold a 70 percent stake to San Francisco-based TSG Partners in August.

Declared Herrmann of the PE firm that eventually invested in Yard House: "We were getting married." ■

Borrowing to Boost Return on Investment

In his annual benchmark study of 137 companies, Brad Saltz of SS&G Financial Services surveyed operators who borrowed money to open restaurants and those who did not. He found that leveraged deals increased returns by 60 percent.

Unleveraged ROI	14.6%
Leverage Factor	1.6X
Leveraged ROI	23.0%

Source: SS&G Financial Services

Some analysts noted that **raising prices** will be tough for concepts that are not differentiated.

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Steve Gonzalez
*President, Up The Creek
Fish Camp & Grill*

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From Farm to Plate

Kyle and Travis Nielsen harvest their wheat crop specifically for Grains of Montana.

By Maya Norris



Co-founders Kyle and Travis Nielsen use the Hard Red Spring Wheat they grow on their family farm in Billings, Mont., to make the ciabatta and other breads they feature at Grains of Montana.

Breakfast sandwiches come with customer's choice of multigrain, sourdough or whole-wheat bread.

Grains of Montana's salads are served in bread bowls.

SNAPSHOT

Concept

Grains of Montana

Headquarters

Billings, Mont.

Units 1

2008 Systemwide Sales

\$3 million
(company estimate)

2007 Unit Sales

\$950,000

Average Check

\$4 to \$5 breakfast,
\$8 to \$10 lunch,
\$10 to \$12 dinner

Expansion Plans

8 in 2008

Kyle and Travis Nielsen are extending the reach of their family business. The brothers are using the wheat from their 15,000-acre farm in Billings, Mont., to create the baked goods featured in their expanding bakery-cafe concept, Grains of Montana.

"We were searching for some ways to add value to some of the crops that we grow. So it started as a value-added venture. And wheat is our mainstay crop. That's what Montana is known for: the high-quality wheat that we raise here," says President Kyle Nielsen.

Because the Niensens had no restaurant experience, they partnered with industry veterans Tom Wilsam and Gary McGill of Cromwell Corp., a Denver-based restaurant consulting and franchising company, in 2004 to develop and franchise the concept.

Reap What You Sow

Grains debuted in 2005 in Billings, featuring sandwiches, artisan bread, pizza and other bakery items. Not only are the sandwiches made with the Niensens' grain, but so are the pizza dough, bread bowls for the salads, pancakes, and hamburger buns. Almost every item is cooked in a stone-hearth oven, including pancakes, burgers and omelets.

The best-selling item is the Raspberry Turkey sandwich, \$6.25, with provolone cheese, sprouts, cucumbers, tomato, raspberry preserves and honey mustard. The sandwiches

come with customer's choice of multigrain, foccacia, sourdough, rye, whole-wheat or ciabatta bread.

While lunch makes up 50 percent of sales, Grains has diversified the menu to build breakfast and dinner business, which make up 25 percent of sales each. It recently added omelets and pancakes to its breakfast menu. To drive dinner and eliminate the veto vote, Grains offers items such as the popular Big Five pizza, \$8.25 personal and \$14.25 family, with pepperoni, sweet Italian sausage, mushrooms, onions and roasted bell peppers; and Bacon Cheeseburger, \$6.75, featuring all-natural, Montana-raised Angus beef. A small selection of wines and beers helps boost the average dinner check to \$10 to \$12.

"We feel we have a very well-rounded, three-segment restaurant here as opposed to Panera," Nielsen says. "It is structured around the bakery products. It all starts in the bakery. If we can't produce the bread or the product that is going to complement this menu, we won't do it. That's why the burgers are there and something like lasagna isn't."

Growing Cycle

As Grains of Montana prepares to franchise, the company is building a 10,000-square-foot bakery after learning that scratch-baking produced a better product than the pre-mixed base it originally used. Professional bakers will par-bake and flash-freeze the products for franchisees, who will finish baking them in the stores.

Grains expects franchisees to open eight units in 2008 in Mississippi, Arizona, Idaho, Colorado, Texas and California. Targeting 27- to 55-year-old white-collar customers with medium to high incomes, the company prefers locations in a mix of residential and business areas in metropolitan cities. It costs about \$600,000 to open a unit, which averages 3,700 square feet with seating for 100.

Grains of Montana expects to have 150 units nationwide in five years. ■



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La Madeleine managers spend less time ordering and receiving products, so they can spend more time with customers and employees.

La Madeleine automated purchasing to lower food cost, but it benefits more than the bottom line.

By Mary Boltz Chapman

The driver was controlling food costs. La Madeleine Bakery, Cafe and Bistro integrated three vendors—one with a back-office food-cost system, another that automates product codes, routing and confirmation, and the chain's mainline distributor—to streamline purchasing and receiving. The system did lower food cost, according to George Popson, senior director of information technology for the 61-unit, Dallas-based chain. But it also helps unit managers save time and be more accurate, and it helps ensure product quality and consistency.

How it Works

La Madeleine store managers use the food-cost system to create a purchase order. The order moves electronically through a program that translates the items into a consistent coding system for the distributor, which sources about 80 percent of products for the restaurants. The distributor checks supplies and pricing and returns a confirmation report to the manager within 20 or 30 minutes from the time the manager placed the order.

If the manager approves it, that document is the same one used when the order is received. If everything is correct, the manager can approve the shipment in one step. If something is off, the man-

ager simply reports the exceptions.

The translation of codes is key. The manufacturers, distributors and chain all might have different code numbers for any given item. "Unfortunately our industry isn't standardized yet on those codes," Popson says. "So we've got a series of interpretations to do to get to the number that we're inventorying and ordering, in relationship to what they actually put on the truck."

Even goods produced in La Madeleine's bakeries flow through the system. The bakeries send product to the distributor, which ships to the units. Prior to about five years ago, La Madeleine had bakeries in every market the chain operated in. The company changed the approach to save the costs of transportation and manpower and make bread distribution more efficient.

Payback Time

Popson says the food-cost system is more challenging for many managers, who would rather be with their guests and employees than at a computer. "Unfortunately there's no other way to manage food at the ingredient level without putting a food-cost system in," he says, adding that while the food cost and inventory requires more time, the ordering and receiving take less time.

"The real payback on the work managers have to do is the reduction in food cost you get," Popson says.

La Madeleine won't disclose food cost as a percent of sales. Popson will only say that the company was trying to get 2 percent out of food cost, but the system actually reduced it by about 3 percent or 4 percent. "We track that, and we continue to get that," he adds.

The chain is testing the program with its produce vendor. Popson is optimistic that all of the restaurants will be online with that supplier soon. He says that would account for another 10 percent of product that the units order.

But Popson doesn't see the system working with any other vendors. "The volume has to be there, the cost for them to participate," he says. ■



Cost PLUS



SNAPSHOT

Company
La Madeleine Bakery, Cafe and Bistro
Headquarters Dallas
Units 61
2007 Systemwide Sales
\$120 million*
Average Check
\$10 to \$12
Expansion Plans
5 in 2008

*Chain Leader estimate

The Milk-y Way to Sky-High Sales

Single-serve milk in plastic, resealable bottles is making a splash across the QSR landscape. And the reasons are obvious. For some time now, demand has been on the rise for nutritious menu options, and milk is one of the best beverage choices providing essential vitamins and minerals such as Vitamin D and calcium. But what's also pumping up milk's appeal is its availability in such an attractive packaging configuration. The resealable, single-serve container is right on trend—enhancing taste along with providing the ultimate convenience for on-the-go consumers.

“A combination of portability and a coolness factor are what make single-serve milk a winning combination in foodservice. Products like our Shamrockers™ are perfect for the on-the-go consumer thanks to their size, comfortable bottle and resealable lid. Plus, the high-impact graphics have people doing double takes, which is key to impulse sales,” says Sandy Kelly, Shamrock Farms Director of Marketing. Shamrock Farms supplies 12-oz. white (1 percent) and chocolate (1 percent) milk to Subway, the largest

restaurant chain in the U.S., with more than 22,000 outlets.

Also jumping on the milk jug bandwagon, SONIC now serves low-fat (1 percent) white and chocolate milk in resealable, 8-oz. plastic bottles across its 3,000-plus units. The packaging also sports the 3-A-Day™ of Dairy logo, reinforcing milk's health benefits and serving to remind customers of the need

to consume three servings of milk, cheese or yogurt each day, as recommended by the U.S. Dietary Guidelines.

“It's important to SONIC that we offer our customers a variety of beverage choices. The new single-serve milks are a great addition to our menu and Wacky Pack Kids' Meals,” says Todd Townsend, chief marketing officer for Sonic Industries, Inc. “White and chocolate milk appeals to the entire family because it tastes good and the bottles are easy to grab-and-go.”

SONIC joins McDonald's, Wendy's, Burger King, Jack-in-the-Box, and Subway, in terms of national chains reaping the benefits that the healthy halo of milk brings to menus. An overwhelming 75 percent of consumers agree that by offering milk, a QSR offers nutritious beverage choices, according to the NPD Single-Serve Milk Study, March 2005.



Milk in single-serve containers is the ultimate convenience for on-the-go consumers.

No Kid-ding. Milk is for Grown-ups too.

While moms and dads are encouraging their kids to order milk at restaurants, some restaurant chains are encouraging grown-ups to drink up, too. Subway is breaking ground by being the first chain to target adults with milk in a 12-oz. single-serve plastic container. Its available in white, chocolate and franchisees can opt to have a third flavor, strawberry.

Says Kelly, “Milk is the original healthy beverage and a natural choice for kids and adults alike. It's the perfect way for restaurants to support well-balanced eating alternatives—much like Subway's partnership with Shamrock Farms for its Subway Fresh Fit™ meals, which offers 12-oz. milk in a variety of flavors that appeal from a size and taste perspective to consumers of all ages.”

Considering its nutrition, pourability, portability and taste, you've got a winning combination in single-serve milk.

Drink to Your Health

The USDA's 2005 Dietary Guidelines for Americans increased the recommendation of dairy foods from two to three servings every day to help Americans meet their requirements for calcium and other nutrients.

- Dairy foods supply three of the five nutrients of concern for which children have low intakes: calcium, potassium, magnesium.
- Overall, dairy foods together contain nine nutrients essential for good health: calcium, protein, potassium, vitamins D, A and B12, phosphorus, riboflavin and niacin.

Key to the success of introducing more nutritious beverage menu options at quick service restaurants is offering nutrient-rich milk in appealing packaging, such as low-fat white and chocolate milk in contemporary, single-serve, 8-oz. plastic bottles.

DESERT Hot Spot

Scottsdale's downtown booms with tourist traffic and more permanent residents. **By Lisa Bertagnoli**

For years, it's been famous as a winter getaway. Now Scottsdale, Ariz., is cultivating another reputation: that as a place to live year-round.

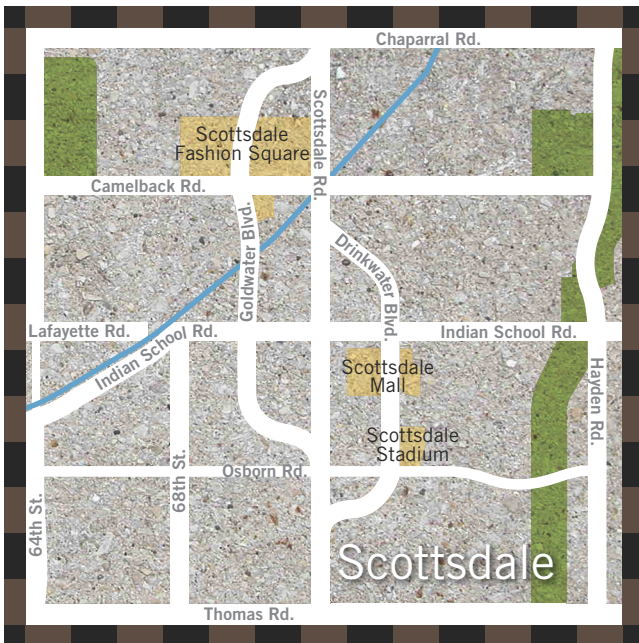
With more permanent residents, the city center (ZIP code 85251) has "transitioned from being a seasonal tourist destination to a 12-month, 24-7 downtown," says John Little, executive director of Downtown Scottsdale, a booster organization.

"It's unbelievable," says Sam Fox, president and founder of Fox Restaurant Concepts, a Scottsdale-based concept creator. "Scottsdale and Camelback [downtown's main intersection] has become Main and Main." Both Fox and Little say that close to \$3 billion have been poured into developing Scottsdale's downtown over the last few years.

A substantial portion of that has gone toward residential develop-

ment. In the past couple of years, downtown Scottsdale's housing inventory has tripled, with 2,500 condos, lofts and townhouses added to the mix. And they're not cheap: Home prices range from \$600,000 to upwards of \$4 million, with prices as high as \$1,000 per square foot.

Retail and restaurants are booming along with the residential growth. Downtown's focal point, from which much of the growth radiates, is the Arizona Canal. The 50-mile canal was dug in the late 19th century as part of a larger water distribution project.



FROM THE STREET

AREA Scottsdale, Ariz.

POPULATION 232,929

MEDIAN INCOME \$68,053

AVERAGE HOME VALUE

\$525,000

COMMERCIAL REAL ESTATE

Rents from \$19 in historic downtown to \$90 to \$100 per square foot in regional malls

NOTABLE DEVELOPMENTS

SouthBridge, a 115,000-square-foot development comprising upscale retail, residences and restaurants. Upcoming: The Rose Garden, another mixed-use development by SouthBridge developer Fred Unger, plus new hotels including The One Hotel and Residences, and Waterview.

OPERATOR PERSPECTIVE

With more residents around, "our business is more consistent," says Sam Fox, president and founder of Fox Restaurant Concepts, a Scottsdale concept creator whose portfolio includes Sauce, an eight-unit pizza chain, and North, a five-unit, full-service concept serving American cuisine. The company's best-performing Sauce, which grosses \$2.2 million a year, is in downtown Scottsdale, as is Olive & Ivy, an upscale "seen and be seen" restaurant. Next up: Modern Steak, an upscale, female-oriented steakhouse slated to open in fall 2008. Scottsdale's only minor caveat is the city's dedication to "smart growth," which can mean restrictions on exterior design. "We've been able to work through any issues we've had," Fox says.



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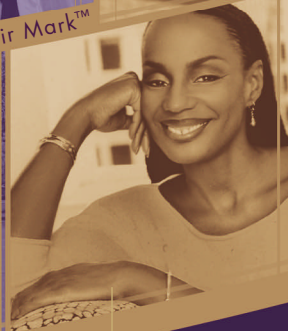
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Old Meets New

Scottsdale's downtown still has an Old West flavor, with plenty of Native American jewelry shops, Western-wear clothing boutiques and old-time saloons. Downtown's flagship hotel is the Hotel Valley Ho, a circa-1956 building that was restored to its midcentury splendor in 2004.

More recent retail developments are bigger and more contemporary. The northwest quadrant of downtown's main intersection, North Scottsdale Road and East Camelback Road, is home to Fashion Square, a 2-million-square-foot mall housing Macy's, Nordstrom, Neiman Marcus and assorted other retailers.

Kitty corner from Fashion Square lies SouthBridge, a 115,000-square-foot mixed-use complex featuring high-end fashion retailers and a group of independent restaurants. SouthBridge opened this past spring; to date, two of the seven planned restaurants are open.

Green Space

Following a development plan established 20 years ago, Scottsdale is intent on keeping its downtown as "green" and pedestrian-friendly as possible. The city has spent \$22 million on public trails, art and landscaping, plus a trolley bridge and walkway that connects the north and south sides of the canal.

Another city initiative, The Preserve, is designed to keep the city green—and, perhaps unintentionally, real-estate prices high. That initiative calls for one-third of Scottsdale's open space to stay undeveloped. Setting aside open space "brings the population down, and so there's less stress on the land," Little says. "This is the only place I know that's made that level of commitment." ■

Olive & Ivy, an upscale restaurant-bar owned by Fox Restaurant Concepts, is located in Scottsdale's vibrant Waterfront district.



on the web: The Super Bowl takes place at the University of Phoenix Stadium on Feb. 3. Read how area restaurateurs are preparing for the big event at www.chainleader.com.

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SERVICE
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GROUP



“Silver Dollar” Length: 15 seconds



1. [Car noise]



2. Voice-over: For a limited time at Huddle House,



3. See double every time you roll in.

HUDDLE HOUSE aims to bring in more business by helping its customers economize.

SAVINGS Plan

By Margaret Littman

The rising gas prices over the past several years are certainly not the kind of warm-and-fuzzy trend with which most marketers would want to be associated. But at Huddle House, the bad news became a way for the Atlanta-based chain of 24-hour diners to connect with its largely blue-collar, male audience.

Huddle House is a 43-year-old chain that started as a place for high school football fans to “huddle up” after Friday night games. A competitor to chains such as Waffle House, Huddle House has been a mainstay in the South for the last four decades. While it has success and notoriety in its local markets, the 417-unit chain plans to expand outside the Southeast, mostly by franchising, increasing its number of units by 10 percent annually.

To prepare for that, over the past several years Huddle House has been undergoing a metamorphosis of sorts, says Chief Marketing Officer Robyn Bailey. The company was restructured, rebranded and re-imaged, including overhauling the menu and updat-

ing the decor of the restaurants. Two years ago Bailey came on board from Arby's Franchise Association to “elevate the story packaging that had already been done,” she says.

Photo Finish

One of Bailey's first steps was to hire Duluth, Ga.-based Ignite Communications to help overhaul the food photography used in Huddle House marketing, changing lighting and employing food stylists. The chain had used the same photographer for the past decade, and the previous photography didn't communicate that Huddle House offered meals that were a step up from typical quick-service restaurants.



4. Because two, juicy double cheeseburger plates cost just \$5.99.



5. That's right. Just \$5.99.



6. So your hard-earned money goes farther than ever.

"The photography did not communicate quality before," agrees Ted Asbury, vice president and group director for Ignite Communications, who worked with Bailey at Arby's. "We wanted to revamp the entire look and feel of the menus."

"We wanted higher craveability for the food that was shot," Bailey says.

The new menu was "about giving consumers what they were looking for while still being profitable," Bailey adds. After testing in three cities, she says the new menu resulted in \$18,000 to \$22,000 incremental profit.

Watching the Bottom Line

While the new menu, the new photos and the push for new ads—paid for by franchisees' contribution of 1 percent of sales to an ad fund—show off the new aspects of Huddle House, the core value proposition is still at the forefront of the marketing message. Many other chains are going to great lengths to avoid competing on value or price, due to competition from large QSRs. But earlier this year Huddle House created two 15-second television commercials and a sweepstakes contest to show its core customer that it feels his belt-tightening pain.

Tied in with the new ads are promotions for \$5.99 meals, including two double cheeseburgers and two biscuit breakfasts. "Our value is relative to what you get at a QSR, but it is sit down, cooked to order," Bailey adds.

While Huddle House serves 24 hours

a day and has lunch and dinner items on the menu, approximately 60 percent of the chain's \$225 million in systemwide sales are generated from breakfast foods, says Asbury. By including a cross-section of menu items, the commercials both build on that breakfast success and introduce more non-morning meal options.

With a tagline at the end of the spots that reads, "The smart bucks stop here," the message is clear that diners get a lot for their money at Huddle House.

Value Driven

The company aired the ads on both network and cable TV in morning and prime-time slots for three weeks in July and again for three weeks in September. They skew male, but not at the expense of women, Bailey says. The spots earlier in the summer emphasized the sweepstakes, which included prizes such as \$100,000 or a NASCAR-themed trip to Daytona Beach, Fla.

The chain plans to run two additional television flights next year. As same-store sales increase, as well as the number of units, the amount available in the ad fund will increase as well, enabling new creative.

"Huddle House had been so used to doing things a certain way we had to build it up from the beginning," adds Asbury. "But people are getting used to the change." ■

on the web: Watch the new Huddle House commercial at www.chainleader.com.

SNAPSHOT

Concept Huddle House
Headquarters Atlanta
Units 417

2007 Systemwide Sales
\$225 million
(company estimate)

Average Check \$5.70

Ad Agency
Ignite Communications,
Duluth, Ga.

Ad Budget \$2 million

Expansion Plans
40 to 45 annually



Bière blanche belge originale. Anno 1445.

Hoegaarden (who-gar-den) is an authentic Belgian white beer with a brewing heritage dating back to 1445. Brewed with real Curacao orange peel and coriander, this refreshing, unfiltered wheat beer is rapidly becoming a favorite among wheat, craft and import brand consumers.

- Hoegaarden was the Gold Medal Winner in the 2006 World Beer Cup® Belgian-style White

- Hoegaarden grew 47% in 2006*



- When competitively priced, Hoegaarden is one of the more profitable brands in the wheat and import beer categories

The Original Belgian White Beer.

By Monica Rogers

Take two snack classics—chicken fingers and mustard-dipped pretzels—put them together and what do you get? A wildly successful new dish at O'Charley's. Vice President of Culinary Development Stephen Bulgarelli says he developed Pretzel Crunch Chicken for the 238-unit chain "to help us break out of the sea of sameness that typifies casual-dining menus."

Proving that merging elements from old favorites can produce something with new appeal, Pretzel Crunch Chicken is O'Charley's most successful new product for 2007. The Nashville,

Tenn.-based company launched the dish in June during the summer phase of its Wild Kitchen menu promotion. During the nine-week limited-time offer, Pretzel Crunch Chicken sold twice as well as expected. "We expected to sell 120,000 entree portions of the chicken," says Bulgarelli, "but in actuality, we sold 272,749 servings." It moved to the core menu Oct. 29 as a \$7.49 appetizer and \$10.49 entree.

It's Not Broken, But...

Developing the dish, Bulgarelli says his first hurdle was "messing with chicken fingers at all." Because chicken fingers

Not your average chicken finger, **O'CHARLEY'S** new version gets pretzel coating and mustard sauce.

Crunch FACTOR

Familiar but different: Chicken tenders coated in pretzel crumbs and served with mustard dipping sauce is the top-selling new menu item at O'Charley's.

Pretzel Crunch Chicken sold so well during a nine-week, limited-time promotion over the summer that O'Charley's moved it to the core menu in October.

sell well at O'Charley's, management's initial reaction to creating a new version "was very much a 'why fix it? It's not broken' type thing," Bulgarelli recalls. O'Charley's decided to keep its traditional chicken fingers but gave Bulgarelli the go-ahead to add a new, second version. "The goal was to produce something familiar, but with a twist," he says.

From the start, Bulgarelli honed in on using a pretzel coating for the chicken. "Sounds easy, doesn't it?" he laughs. Four months and 40 different pretzel samples later, Bulgarelli had something that worked. The challenge came in grinding pretzels to the right consistency so they would adhere properly to the chicken and add crunch. Evenly dispersing salt particles through the coating was also tricky. "We found it worked best to use salted pretzels plus some added salt, and we trained our units to mix the coating manually before using," says Bulgarelli.

SNAPSHOT

Concept O'Charley's
Headquarters Nashville, Tenn.
Units 238
2007 Systemwide Sales \$630 million*
Average Unit Volume \$2.5 million
Average Check \$12
Expansion Plans Not available

*Chain Leader estimate

Whole Is Better

Chicken half tenders were initially slated for use in the dish, but Bulgarelli says whole chicken tenders (8 ounces per serving) worked better. "They came out more juicy inside, with a better crunch outside, and were more attractive on the plate," he says.

Saucing the chicken, Bulgarelli experimented with everything from beer cheese to grainy mustard. "But you just can't beat the combination of Dijon mustard and pretzels," he says. The final dipping sauce is a blend of fresh herbs, Dijon mustard and mayonnaise.

"Creating something new doesn't always mean reinventing the wheel," Bulgarelli says. "Sometimes it's just rethinking how, and with what, you're putting it together." ■

on the web: Concept creator Steve Schussler takes hot dogs and sausages to a new level with a medley of mustards at his soon-to-open Hot Dog Hall of Fame. Visit www.chainleader.com.

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Beachy KEEN

Colorful murals and rustic finishes lend a tropical touch to **ROCKIN' BAJA LOBSTER.**



By Lisa Bertagnoli

From the outside, the Rockin' Baja Lobster restaurant in Las Vegas looks foreboding. It's a solid brick building with massive, medieval-looking doors, complete with heavy iron hardware.

The doors open, however, to reveal a festive, tropical atmosphere.

The first thing guests see is a cartoon-like lobster painted into the stained-concrete floor. If they look up, they'll see faux parrots swinging on perches, and a surfboard and large model airplane suspended from the ceiling. Where the ceiling isn't blacked out, it's festooned with clever sayings. A palapa-topped bar, with video-gaming screens set into the bar top, is visible from all points of the room.

Inverted galvanized metal buckets double as light fixtures, hovering over booths. Booths and tabletops are rustic knotty pine. On each wall is a bright, hand-painted mural showing beachcombers, curling waves, surfers and palm trees.

Theme with Variations

The Vegas Rockin' Baja Lobster looks like its six siblings, but only to a point. "I never envisioned this to be a cookie cutter," says Rick DiRienzo, founder of the San Diego-based company. "They're supposed to be individual, funky, fun."

DiRienzo opened the first Rockin' Baja Lobster in Oceanside, Calif., in 1986, with a basic design meant to evoke a casual

beachside resort; hence the palapa, the galvanized metal light fixtures and murals, all painted by the same artist, Clayton Parker. Restaurants are also supposed to have large, awning-covered patios.

With those basics covered, franchisees are free to riff on the theme. Dave Borchers, who operates the Vegas location, which is located in the Spring Valley area, a mix of residential and business, added his personal touch several ways. Most Rockin' Baja Lobster floors are covered with pavers; the ochre-colored stained-concrete floor was Borchers' idea. "I like the way it looks," he says.

Borchers also personalized his murals. They feature depictions of his wife, Sandra; their daughter, Cady; the family dog, Murphy; his accountant, Allen Kim, as well as the singer Kenny Chesney (though with his face turned away). Products from local vendors, who paid for the privilege, are also depicted. And, being in Vegas, Borchers' unit has video card-game gambling machines set into the tabletop.

Cost Effective

Borchers says his location cost almost \$1.6 million to build, partly because it's in a space that was meant to be a medieval-theme

SNAPSHOT

Concept

Rockin' Baja Lobster

Location Las Vegas

Opening Day April 26

Area 6,000 square feet

Seats 165

Average Check \$28

Unit Volume \$3.5 million (company estimate)

Expansion Plans 5 in 2008 and 5 in 2009

1. The festive, tropical atmosphere at Rockin' Baja Lobster includes faux parrots swinging on perches and a palapa-topped bar, visible from all points in the room.

2. Future bars will be topped with galvanized metal; it's easier to maintain than thatched palm.

3. The murals in Vegas depict, among other characters, the franchisee's wife, daughter, dog and accountant.

Alcohol accounts for 30 percent of sales at the Vegas Rockin' Baja Lobster.

Photography by Kingmond Young





Future Rockin' Baja Lobsters will have metal awnings, not thatched palm, over the bars.

4. Franchisee Dave Borchers says families like his restaurant “because it doesn’t look like a bar.”

5. An artist friend of Borchers painted the Rockin’ Baja Lobster logo onto the floor in the foyer.

6. The Vegas location has more televisions than the average Rockin’ Baja Lobster.

7. A windowless building means more room for murals, hand-painted by artist Clayton Palmer.

8. The all-you-can-eat Caesar salad bar is a fixture in each Rockin’ Baja Lobster.

The chain specializes in meat-and-seafood-filled “buckets” such as the Big Baja Bucket (opposite), served with rice, beans, tortillas and the Caesar salad bar for \$23.95 per person.

restaurant. That restaurant was not completed, so Borchers took over the space. He also “inherited” architect Dan Ballard, president of Ethos 3 Architects in Las Vegas.

“The first time I saw the building, I thought, ‘Oh my god, what is this?’” DiRienzo recalls.

The stolid exterior, which was covered with yellow porcelain tile, presented the biggest design challenge, according to Ballard. “It was a Gothic building with no windows,” he says. Because of the site, the Las Vegas location has neither patio nor awnings.

DiRienzo encourages franchisees to open in existing restaurant buildings, rather than build out. The average opening cost, he says, should hover around \$400,000 to \$600,000; the murals, which will remain hand-painted for the foreseeable future, can cost up to \$40,000 per store.



Easy Does It

Design changes in the future will be minimal. DiRienzo wants to replace the thatched roof over the bar with galvanized metal, which is easier to clean and maintain. He also is experimenting with a smaller prototype, called Rockin' Baja Rapido, which will offer a fast-casual version of the bar-and-grill menu.

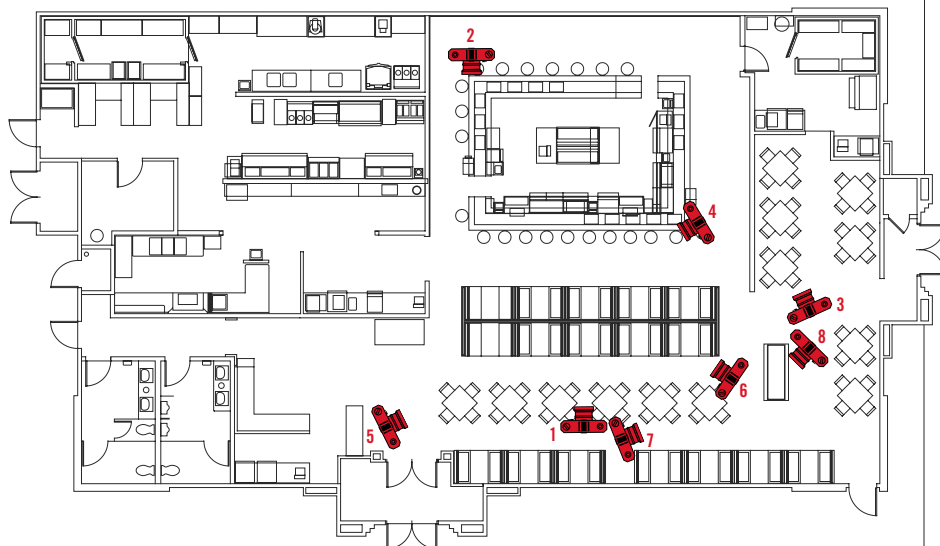
Meanwhile, he plans to open five full-service Rockin' Baja Lobsters next year and another five in 2009. Expansion "will be slow," DiRienzo says. He'd like restaurants to average \$2.5 million in sales, but those in busy tourist areas can gross \$6 million to \$7 million a year.

That's Borchers' hope for his next Rockin' Baja Lobster, which will open sometime next year in the Pioneer Hotel and Casino in Laughlin, Nev. The two-story restaurant will feature a balcony on the second floor and should gross more than the Vegas location, which is expected to generate \$3.5 million in sales.

To do wildly well, Borchers says, "these have to be in tourist spots." ■

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

KEY
 Direction of shot
 Shot No.
 Position of camera



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CEO Bob Hartnett has prepared **HOULIHAN'S** to survive economic issues.

Up for the **CHALLENGE**

By David Farkas

Casual-dining concepts are being doubled-whammied. Macro-economic factors like rising energy prices and falling home values are flattening sales while nearly identical brand formats are sending diners in search of a unique experience.

The danger of that predicament is abundantly clear to Bob Hartnett, who joined Leawood, Kan.-based Houlihan's Restaurants as chief executive and an owner in late 2002. Hartnett, who had only recently turned around Golden, Colo.-based Einstein Noah Restaurant Group, has since revamped menus, opened 11 new prototypes and added the new design to 30 existing units.

Today, diners nosh on ahi tuna tacos while sipping Brazilian Wax cocktails, a mix of cachaça, orange-flavored liqueur and pineapple juice, in subtly lit dining rooms. It's a long way from the '80s-era, clutter-filled eateries that still make up much of the system.

Still, trendiness comes at a price. New Houlihan's, with their open floor plans, high ceilings and display kitchens, cost \$2.2 million for building and FF&E. The amount is justified, Hartnett insists, by the additional \$750,000 in sales the new units produce over the system average of \$2.8 million.

Until August, comparable sales remained positive at the 90-unit chain, Hartnett says. Since then, they've tailed off as headwinds have hampered sales and guest counts throughout the category. "What's going to happen in the future, I don't know," he concedes.

Others are confident Houlihan's can withstand the challenges. "Bob and the team have a handle on things," offers lender Rod Guinn of Wells Fargo Foothill. "They are approaching operations and their financial plan in a way that they will manage through [the challenge]."

Hartnett spoke to *Chain Leader* in early November about the issues facing the privately held chain and the plan in place to deal with them.

Is the current economic climate causing you to pull back on growth?

No, we are trying to ramp up our growth. We opened about 16 this year; six of them corporate restaurants. Next year, we're planning on 16 or 17. But we are finding it takes longer to get them open. Two years ago we

thought we could do it in a year-and-a-half, but today it's more like two years. It's the same thing for our franchise partners.

What's lengthening the process?

It is not a fact of capital. It's finding quality sites and permitting. The real-estate process is taking longer than we anticipated.

Describe the ideal site for Houlihan's.

On the Houlihan's side, we're looking to be in power centers with multiple big-box tenants. If we can be on the same site with P.F. Chang's—that kind of quality restaurant—then that's where we'd like to be. We need the lunch daypart and evenings and weekends. It's pretty much the same thing everyone else is looking for.

What do year-to-date comparable sales look like?

We do not give out actual numbers. I can say we've had four years of sales that have been from excellent to good by industry averages. I'm comparing them to public companies.

Describe recent sales trends.

We are seeing softness in the last eight weeks that we haven't seen in the last four years, quite frankly. It is difficult and won't get any better for the next year to 18 months.

Is it because of gas prices and adjustable rate mortgages?

Oil is a psychological factor. It's really adjustable rate mortgages. I expect another couple of rounds [of increases] to come. Once those rates adjust, it is going to be hundreds of dollars a month.



Houlihan's prototype, which has a \$2.2 million price tag, features an upmarket look.

The food at Houlihan's receives high marks from customers, officials claim.

A re-invigorated Houlihan's sports a new brand identity courtesy of industry veteran Bob Hartnett (opposite) and his management team.

SNAPSHOT

Company
Houlihan's Restaurants
Headquarters
Leawood, Kan.
2007 Systemwide Sales
\$262 million (fiscal year ended Sept. 30)
Units 31 company, 64 franchised
Average Unit Volume
\$2.9 million
Average Check \$18.78 (company stores)
Expansion Plans
16 or 17 in 2008

“We were looking for a balance sheet to allow us to grow at a reasonable rate and not put us in a position where, if the economy or we stumbled, we’d be in trouble.”



BIOGRAPHY

Name Bob Hartnett
Hometown Aiken, S.C.
Education B.S., Accounting, Lamar University, 1974
Ladder-Climbing 1972-90, president, Bennigan's Grill & Tavern, S&A Corp.; '91-'96, Boston Chicken franchisee; '98-'01, chairman and CEO, Einstein Noah Restaurant Group; '02-present, CEO, Houlihan's Restaurants
Executive He Admires the Most Chuck E. Cheese CEO Dick Frank
Hobbies golf, running, collecting wine
Personal married 15 years, no children

Is there a region of the country where sales are dipping faster than in others?

No, not really. We opened our first restaurant in San Antonio six months ago. It's done very well, and we opened in Dallas about 90 days ago. We have only two restaurants in Texas, and it's a corporate market.

What do you like about Texas?

I lived there for a long time, so I know the state. I like it because it has a good consumer base. I like the business environment. Tip credit is still \$2.13, which makes it much more economical than other states where tip credit is higher. It just has a vibrant economy with consumers.

Where does the brand stand today with consumers?

It really depends on [which era] restaurant you go into. We are a 35-year-old company. We have repositioned from where you might remember it prior to 2001. What you see in Strongsville, Ohio, for example, is the total branding package: food, uniforms, music, menu format and environment. It is the end result of how we repositioned Houlihan's and what we are building going forward.

But the older restaurants make up the bulk of the system.

In our existing restaurants, which have an '80s or '90s feel like a lot of other casual diners,

where we really get credit is the quality of the food. It's a scratch kitchen for the most part. We have a menu with some interesting things and some traditional things. The more interesting things are the ahi tuna tacos. If you are a more traditional eater, there's traditional casual-dining food on the menu.

Have you used focus groups to discover what customers think of the new prototype?

Last year we did them with customers going into the new prototype and the older [restaurants]. People liked the look and feel of the new place. We have three key elements: a big patio, big bar and a dining room with display cooking. We get all dayparts there because people use the restaurant many different ways.

What else do you get credit for?

Universally people like the food. If we get any kind of negative feedback from an experiential viewpoint—and I don't want this to sound wrong—it is around service. When we stumble, we typically stumble in the service arena and not the food arena.

Have brand icons changed?

What we really changed is the personality of the brand to something that probably didn't exist before. Now there's a real sense of irreverence and sophisticated humor, for example, in the way we describe the wine and food on the menu.

What existed before?

How I can say this? It was kind of bland. Houlihan's had always been known for having scratch cooking and interesting food, but [the brand] needed to be reawakened.

Houlihan's menu revamp includes now-trendy fish tacos.



What have you changed?

One difference is the way we treated the ceiling. We changed some colors and we lowered the walls so the people on the elevated piece could see all the way to the bar. Last week in Dallas we were going through lighting to get exactly the right feel when the sun goes down.

Are enough prototypes open to accurately predict the investment?

Pretty much. It depends on whether it's a union or non-union market. Non-union, it ranges from about \$2 million to \$2.2 million for building and FF&E. That's curb-in with no site work involved.

What's the system average sales volume?

It's roughly \$2.8 million to \$2.9 million. The prototypes are averaging \$750,000 above the average store base. Even fully capitalized with the lease we are above 1 times on a sales-to-investment ratio basis.

Speaking of investments, I'd like to know more about your approach to the balance sheet.

After taking two companies out of bankruptcy, it is pretty conservative. There's always temptation to lever a company up or to grow at a rate to beat competition. You will not always deploy capital the right way, and you can't avoid making a few mistakes along the way. But you've got to make sure the mistakes are more like stubbing your toe instead of something that puts you in the hospital.

What was the capital structure after Houlihan's emerged from bankruptcy in 2002?

The five banks [that controlled the company] converted their debt into a \$30 million preferred equity, which had a "pick" to it. There was also \$12 million in term debt. We [management] bought 51 percent of the common equity from the bank group.

And the debt picture?

Over the years we got rid of the term debt. The preferred continued to accrete, and Goldner Hawn came in and bought all of it from the banks with the exception of GE. The equity attached to the preferred—the 49 percent that we didn't own. The recap effectively converted that preferred into common

stock, which retired the preferred and turned it all into equity.

Did the management team take money off the table?

No, we had no desire to. What we really wanted to do was get a more traditional capital structure and a balance sheet that made sense. And to bring on a partner that could help us to grow. We kicked some options around at the time, however.

What's the company's capital structure look like now?

We have \$15 million term debt on our company today, and our coverages are significantly better than that. We have a revolver when we need it. But we are really growing out of our internally generated cash flow.

How is company ownership divvied up?

On a fully diluted basis, Goldner Hawn is probably at 70 percent. Management has 25 percent and GE Finance has the difference.

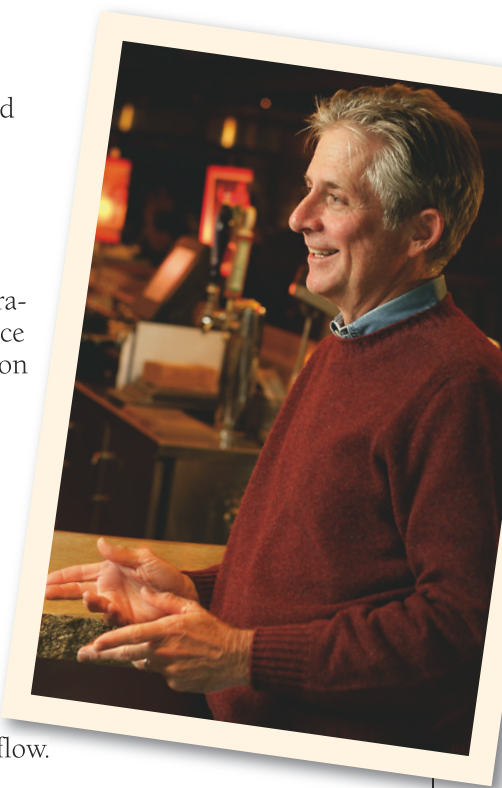
When did Goldner Hawn step in?

About a year ago. [Management] had built up equity value prior to Goldner Hawn coming on board. We now had real incentive to grow equity and protect what we built. It's not like we got a bunch of options and said, "Let's just roll the dice and see what happens. If it doesn't work, it's someone else's problem because it's not our money."

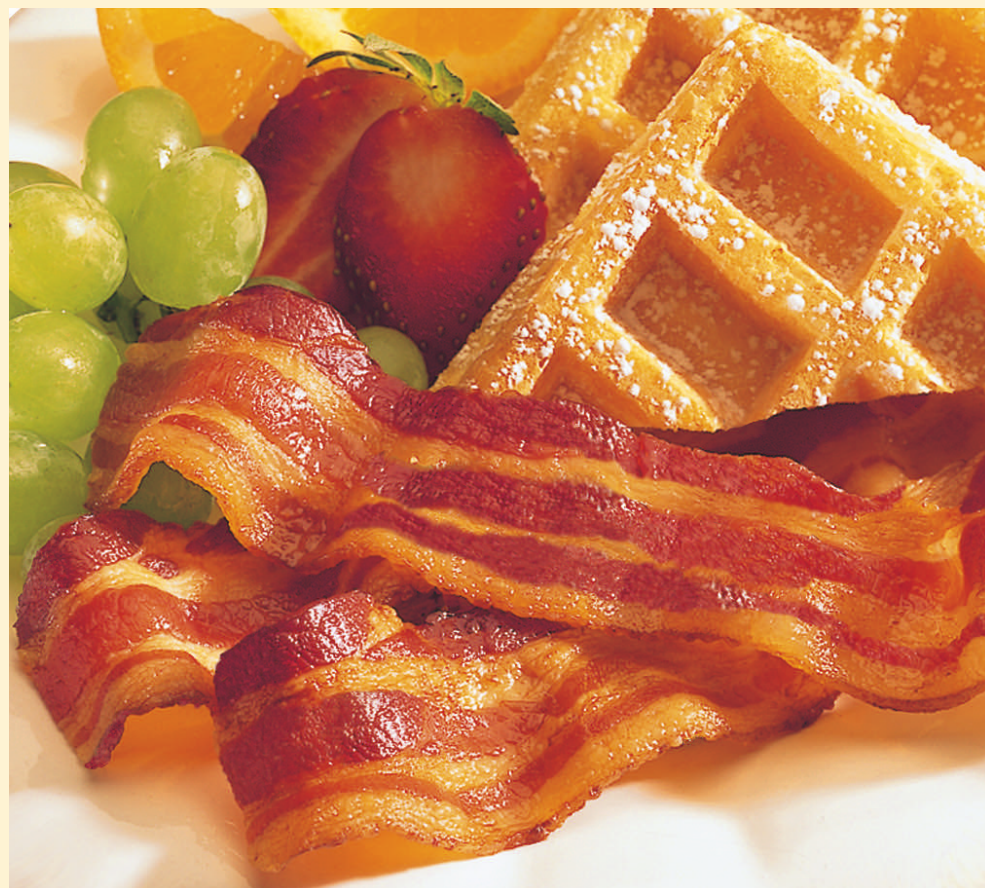
How did you determine the appropriate mix of debt and equity?

We were looking for a balance sheet to allow us to grow at a reasonable rate and not put us in a position where, if the economy or we stumbled, we'd be in trouble. That helps because you're so far out on lease commitments these days. We were looking [to operate] a low-leverage company that wouldn't keep us awake at night. Instead, we could stay awake thinking about how to grow the business. ■

on the web: CEO Bob Hartnett tells how he secured an investment to rebuild Houlihan's. Visit www.chainleader.com.



"You have to be able to set a vision and have some branding expertise to figure out what needs to resonate with customers."



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Early and OFTEN

Fatz Cafe relies on continuous training and reinforcement to establish a culture of food safety. **By Mary Boltz Chapman**



SNAPSHOT

Concept Fatz Cafe
Headquarters Taylors, S.C.
Units 40
2007 Systemwide Sales
\$87.5 million
(company estimate)
Average Check \$12.20
Expansion Plans
5 to 7 in 2008

When the South Carolina Tourism & Hospitality Educational Foundation initiated its Food Safety Seal of Commitment in 2005, it got Fatz Cafe's attention. "It made us ask ourselves, were we really doing all we could do with our food-safety training?" recalls Director of Training Sara Anderson.

"And when we looked in the mirror, we said, probably not," she says. "We were already doing ServSafe [the National Restaurant Association Educational Foundation's food-safety training program] with our management, but we wanted to make sure that it was truly getting down to the front lines."

The state association requires that a ServSafe-certified manager is on duty at all times, 75 percent of employees who handle food complete an approved training program, and all of the efforts are properly documented. In return, the restaurant receives a seal to post on the door.

Fatz went to work examining and revamping its training program.

Servers don't do food prep like plating appetizers or assembling salads, so their food-safety training is less intense than kitchen workers.

Today employees receive food-safety information as soon as they are hired and more at orientation. New kitchen employees take a food-safety pre-test and must receive an 80 percent or higher before they can begin training. Food-safety training is a key part of classroom and hands-on training. Workers take another practice quiz, then a final food-safety test.

After School

At the end of the training program, each worker sits down with the manager for a verbal exam where about 60 percent of the questions are related to hygiene and proper food handling.

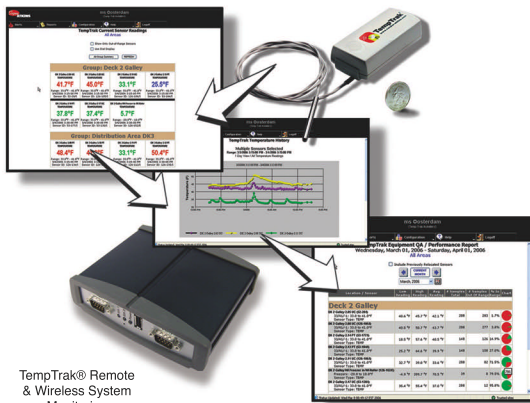
"When we revamped our manual, we put that in front of the board at the restaurant association to get it approved," Anderson says. "And they approved it."

In fall 2006, all of Fatz Cafe's restaurants in South Carolina were certified. New restaurants are certified a few months after they open.

Because restaurants in North Carolina, Georgia and Tennessee don't qualify for the South Carolina seal, Fatz created its own



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“Educating people on why food safety is so important has really helped make it happen and make it become real-life practices.”

—Fatz Cafe Director of Training Sara Anderson



Food-safety training for dining-room staff at Fatz Cafe focuses on hygiene, handwashing and the role of the food handler.

Food Safety Commitment Award seal, which all units must earn.

Ongoing Efforts

The education isn't over once a restaurant is certified. All of Fatz Cafe's managers are required to be ServSafe certified, so courses are held at least quarterly.

The company also promotes quarterly initiatives on food-safety topics that are discussed at the monthly operator-partner meetings. Handouts and new training tools

are sent via mail and e-mail, and presented during pre-shift meetings. For example, it tied the fall program to National Food Safety Month, which was in September.

“We really had to start marketing to them to get the buy-in on the importance of it,” Anderson says. “These habits take time to form. Educating people on why it's so important has really helped make it happen and make it become real-life practices. We just keep adding more and more aspects of it. It's become a part of our culture more than it ever was.”

To enhance the culture piece, the leadership team emphasizes food safety. Restaurant managers teach the ServSafe and other food-safety training to demonstrate the company's commitment.

“We really try to coach and teach our operating partners to hold themselves accountable for food safety, and they do that automatically,” says Vice President of Human Resources and Training Steve Corson. “It is something that is prevalent just about every day. They have to focus on it.”

Anderson tells of a kitchen manager who has point cards that he awards for good food-safety practices. “They have a scoreboard, and the management team participates in this, too, because they have to keep this competitiveness going because everybody wants to beat the manager,” she laughs.

Managers and operating partners exchange such ideas during frequent calls and meetings.

Outside Sources

The company is eager to learn from experts outside the company as well. Its units are audited by a third-party inspector, and operators build relationships with municipal inspectors.

“We try to take a proactive approach with our health departments and let them know that we're interested in talking with them,” Corson says of Fatz' relationships with inspectors. “We want to ask them questions about what we can do to improve our food safety, and all of our operator partners understand that is an important relationship.”

Anderson sums up all of Fatz Cafe's efforts simply: “We're sticking to basics and constantly talking about it.” ■



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CHAIN LEADER LIVE focuses on excellence in execution in an increasingly competitive market.

DOING IT Better

By David Farkas

Despite the fires in San Diego, business was good for Tustin, Calif.-based Mimi's Cafe. According to Vice President of Marketing Lowell Petrie, sales had climbed 50 percent among the family-dining chain's four San Diego outposts by the time firefighters gained control of the blaze that destroyed 362 houses within the city limits.

Petrie speculated that the sales pop was the result of the need to gather in familiar surroundings during a crisis.

He was among 160 restaurant industry executives at the Marriott Hotel & Spa in Newport Beach, Calif., for *Chain Leader LIVE*, Oct. 24-26. They gathered to network and listen to 38 leaders discuss topics ranging from expansion abroad to culinary

trends, with special attention paid to execution. A brown haze and the odor of wood smoke were the only clues to the devastation nearby fires were wreaking.

Listen Up

Keynote speaker Scott Aylward, co-

author with former Sonic Corp. President Pattye Moore of *Confessions from the Corner Office*, offered lessons on becoming a better executive and human being. A former advertising executive, Aylward's remarks often prompted guilty chortles, such as when he admonished those who look at their Blackberrys in meetings. "That's like taking an in box to a meeting," he suggested. "You have stopped listening, and that's a powerful loss [because] you can't contribute ideas and be creative."

What's more, he added, "You are telling the speaker that he's not that important."

Aylward's solution: "Blackberry tables" in meeting rooms, where the devices could be collected as people walked in.

His remarks also brought applause. Aylward praised San Diego's Big City Bagels for a sign that reads, "We will not wait on you if you are on your cell phone."

"Hallelujah!" he declared.



Like the Magazine

The conference's format generally mirrors the magazine itself. For example, the Upstarts panel included the founders of concepts that had been introduced in the pages of *Chain Leader*.

Barry Gutin, who has opened two Cuba Libres, in Philadelphia and Atlantic City, explained how the Latin-style concept builds revenues of about \$7 million per unit via an authentic Cuban menu, mojitos, and Cuban dancers and live music late at night.

Tanya Petrovna introduced Irvine, Calif.-based Native Foods 13 years ago, offering a vegan menu; the company now has five outposts in Southern California.

"As long as the flavor and texture are there," the product can go on the menu, says Petrovna, a vegan herself. Seitan, a vegetable protein often used as a meat substitute, fits that bill so well that Petrovna's company manufactures it.

The rebirth of Pittsburgh-based Italian Oven Cafe, a concept that began life as a full-service chain in the mid-'90s, was the subject of founder Jim Frye's presentation. Since closing his original stores, he explained, he has altered the concept to quick casual and plans to open a second in South Florida. The upscale menu includes lobster ravioli, Chicken Toscana and pizza with prosciutto and figs. The check average is \$9, Frye added.

Attendees were treated to a case study of branding efforts at another chain that has altered its concept: 120-unit Hard Rock Café. Chief Marketing Officer Sean Dee outlined the step-by-step process the company and its ad agency took to re-invigorate the aging concept.

One bit of advice from Dee: Trim logos. Hard Rock, he said, had 280 logos two years ago.

Another tip: "Innovate relentlessly and stay fresh," Dee said.

Emergency Measures

Breakout sessions gave attendees a chance to interact with experts more closely. During one, attendees heard from

food-safety experts like Hal King at Chick-fil-A and Marketing Vice President Brian Dixon of Taco John's. Dixon talked about

how the chain dealt with an E. coli outbreak last December, and he recommended practicing crisis management.

"We had a plan, but we hadn't drilled on it," he said. "Now we were caught up in this incredible situation. I was taking 40 calls a day." The Cheyenne, Wyo.-based chain quickly switched lettuce suppliers and agreed to reimburse the medical bills of the people sickened.

Growth Imperatives

Less dramatic but no less crucial are the steps operators must take if they are to maintain staffing levels. That's because health-care and pre-school industries are hiring workers who might otherwise work in restaurants, warned the People Report's Teresa Siriani, who moderated a panel that included Buf-fets Inc. Vice President of Human Resources Jane Binzak and Vice President of Human



Educational sessions at *Chain Leader LIVE* included a keynote speech by author and former ad exec Scott Aylward (opposite) and a panel discussion among corporate chefs.

Attendees heard case studies from executives like Red Lobster President Kim Lopdrup (above l.). They were encouraged to join the discussion at the sessions and during food-focused networking opportunities.

***Chain Leader* Publisher Patricia Dailey (below l.) welcomed the 160 industry leaders to the event.**





Chain Leader LIVE brought operators together to discuss topics ranging from expansion abroad to culinary trends, with special attention paid to execution.



Resources Tom Norton of BJ's Restaurants.

"That's the same labor pool for restaurant managers," she explained, adding that the 16- to 24-year-old labor pool will have "no growth for the next 10 years."

There's yet another important demand on operators, this one from international franchisees. In the World Partners general session, Church's Chicken Vice President of International Franchising Zack Kollias drew upon his experiences abroad to offer compelling advice about how to expand outside the United States with foreign partners. The fried chicken chain franchises some 400 units in 18 countries.

Kollias counseled attendees to research heavily. For instance, he advised, determine if taste panels are necessary. "In India, they are," he declared.

The Toque of the Town session also raised taste issues. The corporate chefs on the panel discussed the consumer demand for different kinds of breads, trendy ingredients such as juices, purees and nuts, and the how the Food Network has prompted consumers to seek new flavors.

Award-Winning

The editors of *Chain Leader* presented the magazine's Execution Awards on *Chain Leader LIVE*'s final day: IHOP Corp. CEO Julia A. Stewart won the Chain Leadership award, Chick-fil-A's S. Truett Cathy, the Legend award, and Metromedia Restaurant Group's Clayton M. Dover earned the Protégé award.

The 37-year-old Dover acknowledged he was startled to find himself in the company of Cathy and Stewart, adding he owes his

rapid rise to bosses that gave him a chance to work freely.

Freedom was the theme of filmmaker Patti DiVita's presentation, in which the former waitress recalled that working in restaurants gave her a chance to travel. "I could find work just about anywhere," she said.

DiVita illustrated her talk about waitressing with clips from her movie, "Did I Say Thousand Island?" which she wrote and directed. The feature-length movie tells the story of a waitress coming to terms with her choice of careers. DiVita reminded the audience to take care of their employees because employees were responsible for making sure customers were taken care of.

Customer Counts

Orlando, Fla.-based Red Lobster has been taking care of more customers, according to President Kim Lopdrup. The aging seafood chain is performing better, largely on account of stronger marketing, exciting new menus and a classier prototype.

Lopdrup joined Il Fornaio/Corner Bakery CEO Mike Hislop and Yard House CEO Steele Platt for a lively discussion about growth strategies. Platt, who recently recapitalized the business he founded 11 years ago, said Yard House would no longer be constrained by capital. Yet, he added, finding good locations wasn't getting easier. Lopdrup discussed Red Lobster's new upscale decor and menu, saying it was geared to lure lapsed customers.

The odor of smoke that pervaded the air didn't stop attendees from piling into nearby restaurants—Yard House, Blue Coral, Fleming's Steak House and Café R&D, among them. No doubt, sales for those restaurants were up, too. ■

(From top r.) A panel of chain CEOs focused their discussion on growth strategies.

Attendees in a small breakout session listened in as entrepreneurs discussed how to grow to 100 units.

Companies featured in *Chain Leader*'s "Best Places to Work" issue were recognized and celebrated.

Topics spilled beyond the conference rooms and into the networking receptions.

Metromedia Restaurant Group's Clay Dover accepted the Protege award from Editor-in-Chief Mary Boltz Chapman.

Franchise Developer

Is Multibranding for You?

Multibranding can empower franchise partners to maximize facilities and human resources and leverage competitive positioning.

For restaurants, multibranding can keep a single unit busy more hours of the day, says Scott Haver, vice president of franchise development for Louisville, Ky.-based Yum Brands Inc. "It allows customers to get both KFC and Taco Bell with one stop," he says. "It maximizes daily revenues. Taco Bell does a strong lunch and KFC a strong dinner. Customers have told us they prefer multibrand restaurants 6 to 1 over single brands."



Two concepts under one roof offer synergies for both brands.

Franchisee Larry Durrett, who owns a spread of 86 Yum Brand restaurants stretching from the Lower Rio Grande Valley up through East Texas and into the Dallas-Fort Worth Metroplex, got into the A&W business when he needed a concept for a parcel of land that he concluded was too near an existing Taco Bell. "We thought A&W could be a good partner for Long John Silver's, and now we have two of those in good markets," Durrett says.

Experts offer these other suggestions for operation of a second brand:

- **Make the most of your territory with cluster development.** "Study the market with real estate brokers and consultants to determine how many deals you can do realistically in a certain period of time," says Doug Pak, chief executive officer of Frandeli Franchise International, a franchise and consulting firm. "The only caveat is not to open multiple stores with opening dates too close to each other."
- **Treat each brand separately. Every concept has its own nuances.** Centralizing back-of-the-house functions such as accounting and technology are the best places to drive efficiencies.
- **Work with local experts to keep projects on budget.** Look to the design team to assess construction costs and create strategies that will generate savings throughout the building process—particularly in cases in which developers can leverage efficiencies over several units, suggests David Hood, president of The iFranchise Group, a Homewood, Ill.-based franchise consultancy.



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Back in the SADDLE

T.G.I. Friday's
Kathy Fiorenza
renews her
passion for
riding horses.

By Maya Norris

Kathy Fiorenza of T.G.I. Friday's has been competing for the last three years in hunter-jumper competitions with her horse, All the Best, nicknamed Ali. The crossbred horse is of thoroughbred and Trakehner lineage. "Both Trakehners and thoroughbreds are well-suited for jumping," she says.

Kathy Fiorenza, director of operations for the central division of Carrollton, Texas-based T.G.I. Friday's, has enjoyed horseback riding since she was a child. But it took a back seat for 20 years as she furthered her career. Fiorenza has since rediscovered her passion for the sport, riding both for pleasure and in competitions.

Fiorenza rides two or three times a week during the competitive season and at least once a week the rest of the year at a horse farm in Ostrander, Ohio. "It's just one of those activities where you can really immerse yourself in it," she says. "There's just something about being outside and riding a 1,500 pound animal that takes a lot of focus and a lot of discipline, and I think you walk away from that with a clearer way of thinking."

Lost and Found

Fiorenza started horseback riding when she was 7 years old. She continued to ride until she attended college at 18. Then as she began her career and rose through the ranks, including stints at the Hilton Conrad Hotel in Hong Kong and the Marriott Corporation in Upstate New York, Fiorenza didn't have time to ride.

That all changed when she joined Friday's 15 years ago and put down roots in Columbus, Ohio. It gave her the opportunity to try

horseback riding again in 2001. "I just got a little bit older, and the career was a little more stable," she explains. "So I decided I wanted to go back and pursue it again because I had loved it so much when I was growing up."

Fiorenza not only rides for fun, but she also competes once or twice a month in hunter-jumper competitions, which take place in the spring and fall. She rides her horse over fences ranging in height from two-and-a-half feet to 3 feet. She usually places in the top three. And last year she won first place in her divi-

sion in the Ohio Hunter Jumper Association competition.

To train for these competitions, Fiorenza focuses on jumping in the spring and fall and form and balance in the winter. She also does cardio and weight training two or three times a week to develop her upper- and lower-body strength to stay on the horse. "It's very important because there are a lot of quick movements involved and you have to be able to adjust so that you don't fall off," she says.

Horse Sense

In addition to training and staying focused while riding, Fiorenza says recognizing a horse's nonverbal cues is also key to horseback riding—a lesson she learned the hard way. Even though Fiorenza rarely falls, she did break her tailbone about four years ago. "I was on a different horse, and he was a very high-strung animal," she explains. "Something spooked him, and he took off and left me behind."

The injury kept Fiorenza from riding for a few months, but it wasn't enough to scare her away from the sport. "That was definitely the worse injury I ever had," she says. "But it certainly didn't take away my enthusiasm for riding. Just like anything, if you love doing something enough, you don't get dissuaded by the setbacks. You just persevere." ■

A kitchen scene with a white subway tile wall. On the left, a metal pot rack holds several pots. On the right, a round black clock is mounted on the wall, with a large kitchen knife stuck into its center. In the foreground, a white bowl is filled with a dish of risotto, topped with a piece of grilled chicken, diced red and yellow bell peppers, red onions, and fresh basil leaves.

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