

Vol. 13, No. 4
April 2008

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**TREND-FORWARD
INSIGHTS TO
BUILD BRANDS**

Buzz marketing
equals brand
building. **PAGE 18**

Re-engineering the
food-cost formula.
PAGE 24

Veteran franchisees
fuel McAlister's
expansion. **PAGE 36**

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How to **SURVIVE** a Recession

Avoid discounts. Maximize
guest value. And get ready
for a bumpy ride.

PAGE 30

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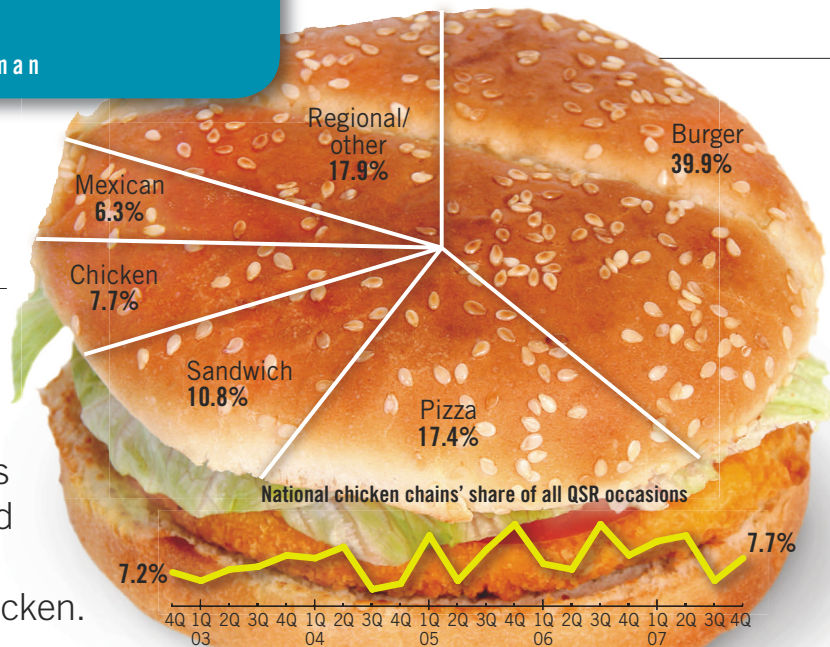
*Nielsen Data, Total U.S. Baked Beans

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Segment Share

QSR traffic share, 21-quarter average

Quick-service chicken is most often on a bun and likely from a chain that doesn't specialize in chicken.



NO BONES About It

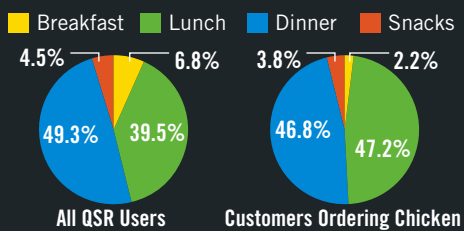
Chicken Dish

Main item purchased by QSR users who ordered chicken on their most recent occasion



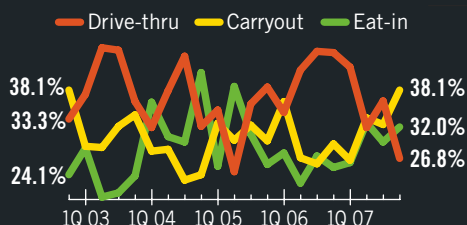
Lunch Bunch

Last purchase occasions, 21-quarter average



On the Road

All QSR users who ordered chicken on their last purchase occasion



On their last QSR occasion, 19.6 percent of all fast-food users ordered chicken—in the form of a sandwich, nuggets or strips, wings or on the bone—as their main meal item, according to a 21-quarter average. Quick-Track, a quarterly study by San Clemente, Calif.-based research firm Sandelman & Associates, finds that of those who bought chicken on their last visit, 46.5 percent had a chicken sandwich; 29.2 percent, nuggets or strips; 19.4 percent, bone-in, fried or nonfried; and 7.9 percent, wings.

- National chicken chains comprise 7.7 percent of all past-month purchase occasions, a 21-quarter average shows. They receive 7.2 percent of lunch occasions, 9.7 percent of dinner occasions and 5.7 percent of snack occasions.
- But of those who ordered chicken on their most recent purchase occasion, 47.2 percent did so at lunch and 46.8 percent at dinner. Of all users' last occasions, 39.5 percent were at lunch and 49.3 percent were at dinner.

- A 21-quarter average shows that 43.6 percent of QSR customers who ordered chicken on their most recent occasion ordered french fries, and 10.5 percent had mashed potatoes. Only 24.4 percent had no sides. Of all users, 29.1 percent had fries on their last occasion, 2.6 percent had mashed potatoes, and 42.8 percent didn't order any sides with their main item.
- 82.3 percent of those having chicken on their last occasion had a beverage; 78.0 percent of all users did.
- Fourth-quarter 2007 data show 56.7 percent of chicken-chain users are male, while 49.5 percent of all QSR users are.
- 38.2 percent of chicken-chain users are 45 to 64 years old; 33.9 percent of all users fit in that age group.
- While 8.2 percent of fast-food users are Hispanic, 10.0 percent of chicken-chain users are, according to fourth-quarter 2007 data. The percentage of black chicken-chain users matches that of the all-user set (8.1 percent vs. 8.0 percent). ■

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

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BASIC AMERICAN FOODS

30 COVER STORY

How to Survive a Recession

Casual dining is feeling the brunt of the economic downturn. To combat weak sales and declining guest counts, casual-dining chains are marketing value over discounting and networking with their most loyal customers via e-mail newsletters and special events at the units.

By David Farkas



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Creating a Buzz

Buzz marketing has emerged as the biggest component of 21st century branding. But to take advantage of its brand-building capabilities, you have to understand the science behind it.

By Margaret Littman



22 IDEA TO ROLLOUT

All Souped Up

When Salsarita's Fresh Cantina began looking for ways to expand combo-meal and healthful choices, a customized build-your-own-soup program using existing ingredients and equipment was the easy answer.

By Monica Rogers

24 MENU ENGINEERING

Theoretical Math

As ingredient costs continue to rise while guest counts shrink, menu developers in every segment are adjusting how they measure success.

By Mary Boltz Chapman

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Fast, Forward

Kings Family Restaurants removed 10 percent of space from its kitchen and added \$30,000 worth of new equipment. The result: more consistent product, reduction in food costs and ticket times, and a 20 percent hike in guest counts.

By Lisa Bertagnoli

36 GROWTH STRATEGY

Veterans Benefits

McAlister's Deli is depending on multiunit, multiconcept franchisees to fuel the sandwich chain's growth. The company benefits from their expertise, while the partnership allows franchisees to expand a brand with staying power.

By Lisa Bertagnoli

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"If I can buy [new equipment] and make the guest experience better, it's worth it."

—Chris Whalen, CFO, Kings Family Restaurants

departments

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No Bones About It for QSR Chicken Chains

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WEB EXCLUSIVES

- How Sizzler markets its wares during the economic downturn
- The Olympics doesn't always translate into big business for restaurateurs
- Former Famous Dave's CEO David Goronkin shares his plans for Redstone American Grill
- How chains are going green at headquarters
- The average restaurant uses 300,000 gallons of water, but there are ways to conserve
- Kevin Perkins and Ken Cole discuss why now is the best time to sell Sizzler
- Ivette Diaz talks about her role as Burger King's director of corporate social responsibility
- Green efforts to trim operating costs

PODCASTS

- Scott Randolph adapts winning recipes from the "Ultimate Recipe Showdown" for T.G.I. Friday's
- Austin Grill CEO Chris Patterson takes advantage of the economic slowdown
- Mark Hampton's execution of Vicorp's Legendary Recipes program

HOW TO GROW TO 100 UNITS

- Aaron Allen of Quantified Marketing Group shares some tips for marketing on a small budget
- Kelly Harris of Times Grill pinpoints the 10 key areas small chains need to invest in as they expand
- Don Vlcek of Marco's Pizza provides 10 tips for working with suppliers

PLUS

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

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It's SCARY Out There

Our company is for sale. When the news came out, the buzz in the hallways and coffee rooms was: What about my job, my seniority, my pension? Very quickly, though, we received e-mails from our parent company, Reed Elsevier; the CEO of our division, Reed Business Information, which publishes *Chain Leader*; and the head of the U.S. division, telling us the reasons for the decision and its timing.

Soon after, executives spoke to their direct reports, who spoke to their direct

fewer shifts. Employees in the home office gossip about possible layoffs.

Staff at every level look to their direct supervisor for cues on how to respond to uncertain times. Depending on how high up you are in the organization, there might be quite a few people watching to follow your lead. Like all parts of the company culture, it starts at the top. If you're negative and nervous, don't be surprised when they are too. I'm not suggesting that you play Pollyanna, but be optimistic and realistic about the situation. And be open and answer questions the best you can. Like our co-workers, your team might just want someone to know they're scared.

Watch out for naysayers in the line of command. If there's someone between you and the people who deal with customers who thinks the sky is falling, it's hard for them to share your optimism and your guests will notice.

WE'RE HERE FOR YOU

You might be a bit anxious too. We'll try to help. In this issue, you'll find pointers on helping your staff deal with transitions in "Change Agents" on Page 44.

"Theoretical Math" on Page 24 looks at how menu developers have had to adjust the way they create new items and balance cost restrictions with value perceptions.

And our Cover Story, "How to Survive a Recession" on Page 30, shows how casual-dining marketers are driving traffic for the long term by promoting value rather than "discounting."

Just as we don't know who our company's new owner might be and how that might affect *Chain Leader*, we don't know when the economy will pick up and customers will loosen their purse strings and come back to restaurants. I prefer to assume we'll all get through this year stronger for the steps we've taken. ■

BIG ideas

"Discounting is a marketer's nightmare and never a sign of a healthy organization."

—Kendra Sartor,
vice president of brand
development, *The Melting Pot*

"I can't emphasize this higher, the 'atta boys' and 'atta girls'—that pat on the shoulder."

—Ken Moore,
management consultant

"I don't think we're headed to recession. But no question, we're in a slowdown."

—President George W. Bush,
at a Feb. 28, 2008
news conference

"It's a recession when your neighbor loses his job; it's a depression when you lose yours."

—President Harry S. Truman,
April 13, 1958

The economy will eventually pick up and customers will come back. Smart companies will be stronger for the steps they're taking now.

reports, until everyone had the chance to talk about their concerns and ask questions. Since then, we can check our company's intranet for FAQs and regular updates. Some people are still anxious about their positions, but they're probably the same people who were anxious about them before the announcement.

UNCERTAIN TIMES

I'll bet that some of your employees are nervous, too. If they don't pay attention to the news about the housing market, credit crunch and devalued dollar, they see the impact when they fill their gas tanks, pay their utility bills and shop for groceries.

Workers in the restaurants see that there are fewer customers coming in and their paychecks show that they worked



Mary
Mary Boltz Chapman
Editor-in-Chief

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Good DEEDS

Sale-leaseback deals aren't merely for funding growth these days; capital from the sale of restaurants can be put to other crucial uses, explains real-estate-financing expert Jeff Fleischer of Spirit Finance, in Scottsdale, Ariz.

When does a sale-leaseback transaction make the most sense?

Sale leaseback makes more sense for some operators than for others. People who have been growing rapidly or consolidating industry or undergoing merger and acquisition or a recapitalization. In those scenarios it makes sense to look at sale leaseback as part of other alternatives, which can include high-yield financing, senior debt, preferred equity—the whole capital stack, in other words.

That's a lot of ground. Can you narrow it down to a model or two?

In the private market on the franchise side and in public markets, we have a lot of different models. Some work, some don't. I'm not sure you can draw a straight line through them and correlate real-estate ownership to whether [the models] succeed or not. If somebody were to lease all their real estate and do a good job, put value on the plate and not put too much leverage on the balance sheet, over long periods of time that capital structure works very well.

Luby's board recently argued that rent could be excessive after a sale-leaseback deal. True from your standpoint?

The ceiling on how much you want to finance on a lease, in our view, is the amount it would cost to build a restaurant new. If the operating margins or cash flow of the business are not sufficient to sup-

port that level of rent, then the real estate is probably not worth that much. The [segment] that Luby's is in is not going to be as strong as others. I am not surprised at their response.

What do rent bumps look like these days?

Rent bumps tend to be 10 percent every five years or 2 percent a year, and they tend to be inflation-based. Real core inflation is probably double that number. Restaurant operating companies, given the competitive environment, often have a difficult time passing through commodity price increases in terms of menu increases. They don't want to tie themselves to a fully indexed inflation lease adjuster. So what you find is that inflation adjusters are roughly half of what real inflation is.

Is that half you are talking about a general rule of thumb, or do some restaurant companies hold your feet even closer to the fire?

There are enough [sale-leaseback] deals going on that people think it is just market [price] or not. The underlying core inflation is a lot higher than what is reflected in current rent bumps.

Finally, how important are buyback clauses these days?

The way to think about it is: How do you structure a flexible lease that allows someone to run the business without impairing the business? Buybacks are part of it—the ability to substitute assets, the ability to go to investors for remodeling capital, the ability to close stores if [the lessees] wish. So all of those kinds of things, in addition to the return-on-equity discussion, are really important. ■



"The way to think about it is: How do you structure a flexible lease that allows someone to run the business without impairing the business?"

—Jeff Fleischer

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The Flying Biscuit Cafe units are 2,200 square feet to 3,200 square feet and cost about \$492,000 to \$863,000 to open.

Franchisees use a proprietary dry biscuit mix to make the concept's signature biscuits.

The Flying Biscuit Cafe has developed a cult following in Atlanta and earned kudos from the national press including "Rachael Ray's \$40 a Day" TV show, *Zagat* and *Gourmet* for its healthier approach to breakfast and its eclectic decor. Now founder Delia Champion and Atlanta-based Raving Brands hope to build on that success by expanding The Flying Biscuit in the Southeast.

In 2006, Raving Brands, a multiconcept operator of fast-casual concepts such as Planet Smoothie and Doc Green's, bought The Flying Biscuit, its first

it required brining, was easy to overcook or undercook, and took too long to reheat. It also got rid of its housemade granola with organic, fat-free yogurt because the granola had too many SKUs and distribution of organic yogurt was difficult and expensive.

Several recipes were streamlined to use ingredients already in house. For example, of the 10 ingredients in the original recipe for the roasted-red-pepper mustard sauce, six of them were only used for the sauce. The Flying Biscuit reformulated the recipe to use ingredients that it already carried.

It also had proprietary items made to its specifications. Franchisees use a dry biscuit mix, to which they only add butter and light cream. In addition, a supplier provides cranberry-apple butter and turkey meatloaf, which previously were made on site. "The turkey meatloaf easily has 20 pieces to executing it, not even taking into consideration for us to bake it off. It was probably a two-hour process," Champion says. "It took so much of the human error out of it."

BALANCING ACT

Despite streamlining the menu, The Flying Biscuit admits food costs have gone up because of the increase in poultry and dairy prices but won't say how much. "You can always buy something cheaper and faster, sometimes even better, but we're making sure we use the best possible ingredients," says Brent McGhee, director of operations for The Flying Biscuit. "When we spec'd them out, we weren't looking for the cheapest or the house label or anything like that. The consistency and quality of those key ingredients has been paramount."

To offset the higher food costs without raising menu prices, The Flying Biscuit is trying to buy more in bulk, order less often and keep an eye on portion control. It is also helping franchisees analyze labor needs by determining the appropriate number of employees at slow periods and maximizing table turns during peak periods.

The company is also focused on helping franchisees expand in the Southeast. They are expected to open three to six units in Atlanta and Gainesville, Fla., by year-end and 10 to 20 a year thereafter. ■



SNAPSHOT

Concept The Flying Biscuit Cafe
Parent Company Raving Brands, Atlanta
Units 6
2007 Systemwide Sales \$4.5 million*
Average Unit Volume \$1.6 million*
Average Check \$10 to \$11
Expansion Plans 3 to 6 in 2008

*Chain Leader estimate

full-service concept, which features breakfast all day. When Raving Brands purchased the concept, it only had two units. Franchisees have since opened four units in Charlotte, N.C.; Marietta, Ga.; and Atlanta.

FOOD FOR THOUGHT

Founded in 1993, The Flying Biscuit started expanding in the second half of 2007, after spending a year preparing for franchising. To ensure consistency systemwide, the company concentrated on making the from-scratch dishes easier to execute.

Champion worked with Raving Brands' menu development team to remove several items that were labor intensive or had high food costs. For example, whole-roasted chicken didn't make the cut because

IN THE WORKS: The Flying Biscuit plans to boost dinner sales with seasonal limited-time offers such as coconut-encrusted tilapia.

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STAR Turn

Once drab, downtown Los Angeles now glitters with plenty of attractions—and young, well-heeled residents to enjoy them.

Like most urban downtowns, Los Angeles' was moribund, a place where people worked on weekdays and avoided evenings and weekends. Then, in October of 1999, Staples Center opened.

"Streets all of the sudden filled with people," says Carol Schatz, president and CEO of the Downtown Center Business Improvement District. DCBID, which represents 65 square blocks downtown, is the largest of

the eight organizations dedicated to downtown revitalization.

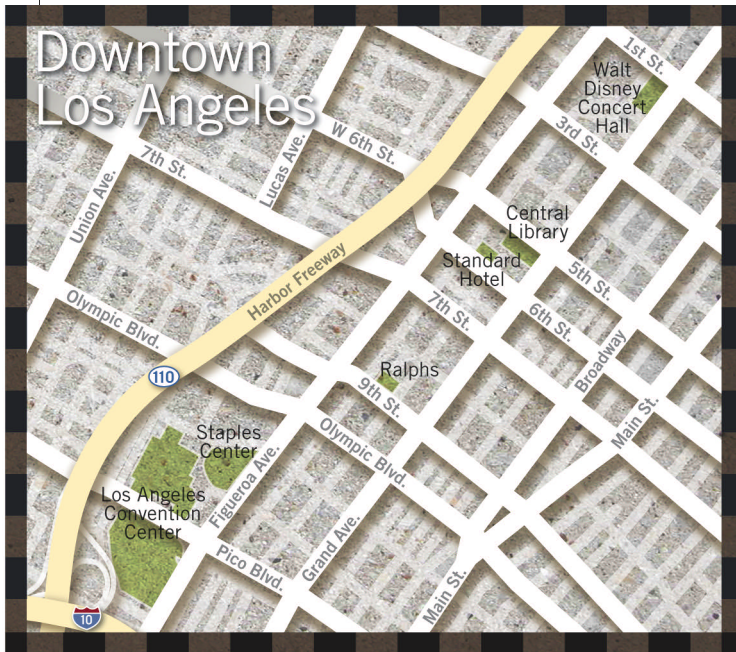
ADDING ATTRACTIONS

Staples Center is one of many attractions responsible for perking up downtown Los Angeles. The Cathedral of Our Lady of Angels, a contemporary Roman Catholic church designed by Spanish architect Jose Rafael Moneo, opened in 2002 to both

acclaim and controversy. The Frank Gehry-designed Walt Disney Concert Hall, home of the Los Angeles Philharmonic, opened in 2003.

A population bump, however, has done the most to enliven downtown Los Angeles. In 1997, only 12,000 people lived downtown. DCBID proposed the Adaptive Reuse Policy, an initiative that would make it easier for developers to convert old office buildings to condos. Since the city passed the ordinance in 1999, 11,000 residential units have been added downtown and another 8,000 are under construction.

These days, almost 29,000 people live downtown. Sixty percent are single, and 55 per-



from the street

AREA Downtown Los Angeles

POPULATION 29,000

MEDIAN HOUSEHOLD

INCOME \$100,000

AVERAGE HOME RESALE VALUE \$614,000

COMMERCIAL REAL ESTATE RENTS \$24 to \$42 per square foot a year

NOTABLE DEVELOPMENTS

Staples Center, the sports arena and concert hall; L.A. Live, a 27-acre entertainment complex including two hotels and a dozen restaurants, opening in phases and expected to be complete in 2010; Grand Avenue Project, a 16-acre park and 3.8-million-square-foot mixed-use development, including a Frank Gehry-designed office tower, now in the final planning stages.

OPERATOR PERSPECTIVE

Wolfgang Puck L.A. Bistro, a 65-seat full-service restaurant at Sixth and Hope Streets, opened as a Wolfgang Puck Express in June 2006. It's been so successful that last March it dropped the Express appellation and began offering full dinner service. Since the reconcepting, dinner sales are up 30 percent, and beer and wine sales, 60 percent.

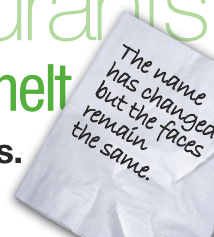
ON THE WEB: Los Angeles failed in its bid to host the 2016 Summer Olympics. Should area restaurateurs cry or rejoice? Visit www.chainleader.com.



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Wolfgang Puck opened an Express location in downtown Los Angeles; it's been so successful that the chain converted it to a full-service restaurant.

cent both live and work downtown. The median annual household income is \$100,000.

DRAWING POWER

The residential boom is drawing retail and even more development. "We have brought in everything from restaurants to art galleries to furniture stores," Schatz says.

The residential population is stable enough that Cincinnati-based Kroger Co. opened a Ralphs Fresh Fare downtown in August 2007. The store, Schatz says, has the busiest deli in the entire Ralphs system.

Likewise, downtown has proven profitable for Grill Concepts Inc., the Los Angeles-based operator of 23 Daily Grills and five Grill on the Alley restaurants. An attractive deal from a developer persuaded the company to open a Daily Grill downtown in May 2005.

"The more we looked at it, the more we were impressed by the opportunity," says Philip Gay, Grill Concepts president and chief executive officer.

The restaurant, located in a building with retail on the ground floor and condos above, is now the highest-grossing Daily Grill in Southern California, with annual sales "north of \$4 million," Gay says. "We do a great lunch with all the businesspeople in the area and a nice happy hour." The location recently began offering breakfast.

A LIVELY FUTURE

While the time for real-estate pioneering is past, downtown is "not oversold," Gay says. "I think there are still good deals to be had."

Indeed, Schatz estimates that the area's renewal is 70 percent to 80 percent complete. DCBID's future plans include courting more restaurants to fashion Seventh Street into a restaurant-and-nightclub row. The street is within walking distance of 8,000 hotel rooms, and there's no mall nearby to provide restaurant competition, Schatz says.

The future, she adds, does hold a challenge: providing reasons for residents to remain downtown once they marry and settle down. "We are working feverishly to provide charter schools and private schools to try to keep young people here when they start to have babies," Schatz says. ■

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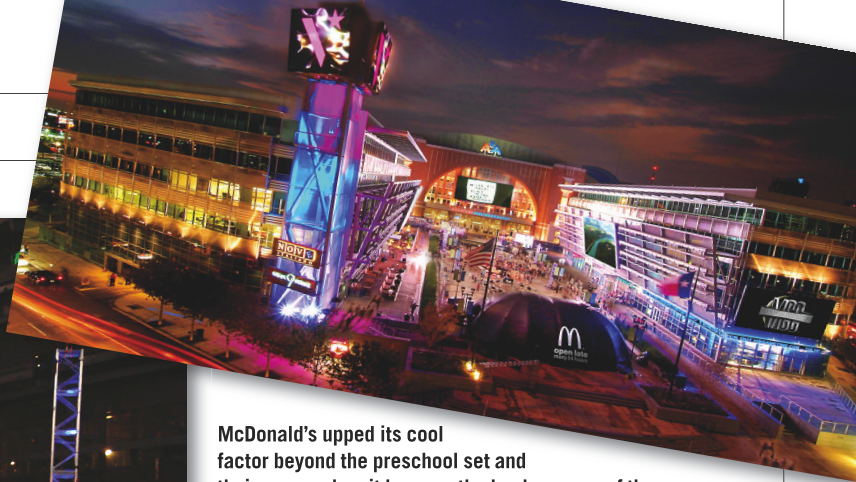
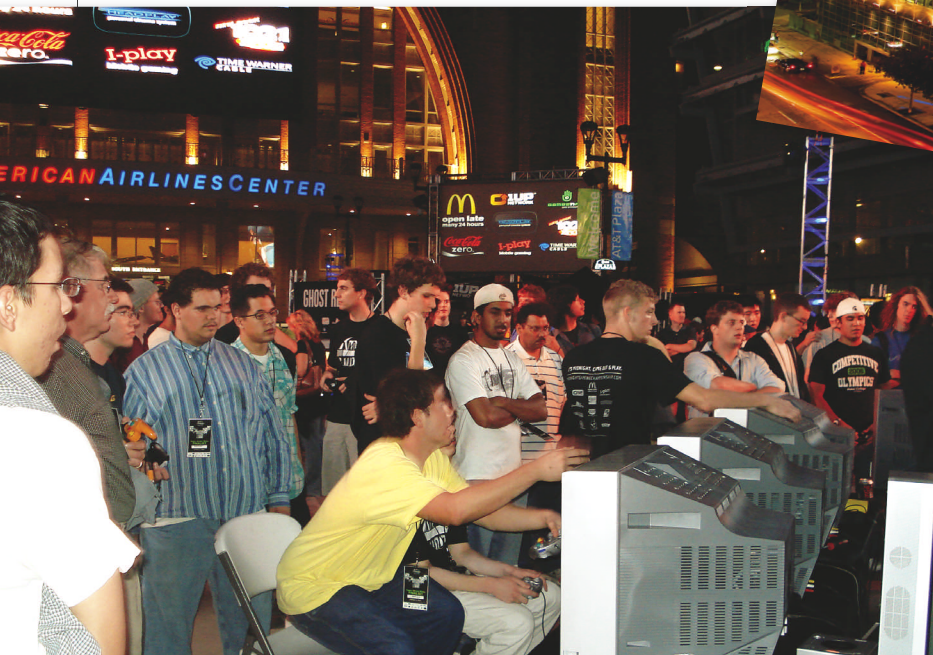
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McDonald's upped its cool factor beyond the preschool set and their moms when it became the lead sponsor of the annual Midnight Gamers Championship. According to the NPD Group, online gamers are both genders (42 percent of them are women), have incomes between \$35,000 to \$75,000 and spend more than four hours online each week.

was able to help the Oak Brook, Ill.-based concept expand its cool factor beyond Happy Meal-aged kids. For the past three years, McDonald's has sponsored the annual Midnight Gamers Championship, a cross-country tournament for gamers. And that sponsorship created goodwill with both those who went to the tournaments and those who only read about them online.

McDonald's ability to capture the excitement of consumers who are already talking, writing and texting about their favorite (and least favorite) products is an example of what many feel is the biggest component in 21st-century branding: buzz marketing. Many marketers say that traditional advertising, particularly the national TV ad buy, may no longer be the gold standard in reaching customers.

New technologies are changing the way marketing messages get to consumers. With DVRs it is easier than ever for customers to skip TV commercials. Instead of getting their marketing messages from the small screen, many consumers get them on their phone, via text messages from friends and businesses or through mobile couponing offers. That's what makes it so important to take advantage of these new marketing outlets in the right way.

Just any tie-in with McDonald's would not have worked. "You cannot just put Ronald [McDonald] in a game and be accepted," Brown says. But, because online gaming typically goes on well after dark—Xbox LIVE activity peaks at 2 a.m.—sponsorship of the contest dovetailed well with McDonald's efforts to promote its late-night hours.

FISHING FOR FEEDBACK

To develop such sensible partnerships, Chris Stiehl and Henry DeVries, co-authors of *Pain Killer Marketing*, published this month by WBusiness Books, urge marketers to understand some basic definitions:

- Word-of-mouth marketing: getting people talking about your brand, be it on the phone, by text messaging or face to face.

Creating a BUZZ

Understanding the science behind **BUZZ MARKETING** is essential to brand building in the 21st century.

Online gamers, the kind of folks who play Xbox LIVE and other competitive computer games, are passionate about their pastime.

"This is a huge community. They love to play games, and they are on [Internet message] boards talking about games if they are not playing them," says Terry Brown, account director at Moroch Partners, a Dallas advertising agency.

When those gamers went to their blogs and waxed poetic about McDonald's, others listened. A lot of others: Some of these online sites have as many as 70,000 members.

"McDonald's did not have the brand that is coolest for young adults," Brown concedes. Yet Moroch



Return on investment for traditional advertising can be as low as 18 percent, says Chris Stiehl and Henry DeVries, co-authors of *Pain Killer Marketing*. However, social networking, blogs and promotions that tie in with something newsworthy are seeing "ROI off the charts," the team says.

Big idea

Data-mining services can help restaurant companies learn what is already being said about their brand on the Internet.

- Viral marketing: getting people to talk online through blogs, product review sites, message boards and e-mail.
- Buzz marketing: getting the media talking and saying nice things about your brand.

"In a modern marketing strategy, you need all three," Stiehl says.

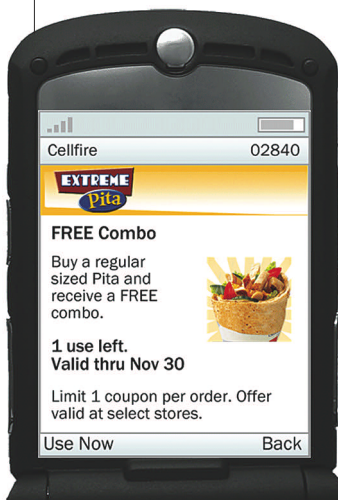
Others use a more all-encompassing definition: "Buzz marketing is something that takes on a life of its own," Brown says. "I do not know that you can create it, but you can put your brand in a position to take advantage of grassroots opportunities."

Patrick Moorhead, director of advanced marketing solutions for the Central Region with the Chicago office of Avenue A | Razorfish, a marketing firm that specializes in emerging technologies, agrees. He believes it is more important to use the existing buzz to learn what consumers really think about your business than it is to try to engineer a short-lived, buzzworthy campaign.

For example, Moorhead remembers a pharmaceutical client who was locked in a neck-and-neck sales race with a competitor. Each company was promoting its drug based on its effectiveness. Avenue A | Razorfish contracted with Umbria, a Boulder, Colo.-based company that provides data-mining services to help companies learn what is already being said about their brand on the Internet. The pharmaceutical firm found that customers discussed ease of use of these drugs more often than effectiveness, as both products were considered effective. The client changed its messaging based on what it heard, and sales increased.

The advantage of a data-mining firm is that it finds things you'd miss, Moorhead says. If you only surf restaurant review sites, you won't uncover a mention of your brand being kid-friendly on a message board for new moms.

Cellfire Inc. provides retailers with the ability to send consumers coupons via their cell phones. Dwight Moore, vice president of corporate marketing for Cellfire, says just watching consumers hold up their cell phones to cashiers in order to redeem the coupons generates buzz. Cellfire recently launched a mobile coupon effort for Extreme Pita.



OUT OF CONTROL

Some marketers worry about negative impressions in these consumer-generated forums, but Moorhead says understanding what customers are saying is paramount. "The opportunity is not in engineering the social environment, but in understanding the social environment," he adds.

Other marketers are concerned about giving up control of their brand message. "Research shows that only 15 percent of people believe what they are told in ads. If only one in seven people believe your message, what good is the control?" Stiehl asks.

Customers trust their online peers because they have no vested interest in the brands they are promoting. Experts agree that covert campaigns, such as posing coached customers on busses to spontaneously praise a brand, are not well received.

"People get angry when they sense something is phony," Stiehl says. "And when they are angry, they spread negative word of mouth."

Instead, DeVries cites a successful promotion by Jägermeister, which sent models into a bar to buy customers drinks and talk about the brand. The models were upfront about who their employer was, so the campaign came off as fun, not phony.

FOR ALL AGES

Buzz marketing tactics are not just for brands going after young adults. Denver-based Vicorp, parent of Village Inn and Bakers Square, has an older-than-average demographic base. Vicorp Vice President of Marketing Josh Kern was surprised how many of Vicorp's customers wanted to order pies on online, subscribed to the company's e-newsletter and are participating in its online Easter memories video contest.

"What people recommend to one another has always been important," Stiehl says. "Now there is a science behind it, and we are just learning how to manage that science." ■



Sports Illustrated swimsuit model Daniella Sarahyba was the subject of Taco Bell's 2008 online promotion, marketed on sauce packets, designed to create buzz among its core male customers. Visitors to a dedicated Web site can create an online "photo shoot" of Daniella hanging out on the beach and playing volleyball. They can then share their shots with their friends either by downloading or forwarding them.



Village Inn and Bakers Square customers who posted online accounts of their best Easter stories were entered to win prizes including a year's worth of free visits. The contest has "spanned generations," says Josh Kern, vice president of marketing, engaging the chains' older demographic in its buzz-marketing efforts.

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SNAPSHOT

Concept Salsarita's
Fresh Cantina
Headquarters Charlotte, N.C.
Units 85
2007 Systemwide Sales
\$54 million*
Average Unit Volume
\$720,000*
Average Check \$7.75
Expansion Plans 15 to 20
in 2008

*Chain Leader estimate

All SOUPED Up

Salsarita's **BUILD-YOUR-OWN-SOUP** option boosts soup sales.

Customizing burritos, tacos or enchiladas at Salsarita's Fresh Cantina has always been a simple point-and-scoop procedure: Guests point at what they want. Servers scoop the ingredients and assemble. No problemo.

So when the 85-unit chain began looking for ways to expand combo-meal and healthful choices, a customized build-your-own soup option

using existing ingredients and equipment was the easy answer.

Launched in January, build-your-own soup, which replaced chicken tortilla soup, has increased soup sales 40 percent. About half of the guests ordering soup choose it as a \$2.89 entree, with a side of chips and salsa or guacamole included in the price. The rest go for a combo meal, paying \$2.99 to add soup and a drink to an entree.

Previously Salsarita's didn't have a soup or salad option with its combo meals. While the

Salsarita's build-your-own-soup program lets guests choose from among 25 selections including rice, chicken and salsa.

Letting guests build their own soups has increased Salsarita's soup sales 40 percent.

original combo—an entree bundled with chips and a drink—has always done well, comprising 45 to 60 percent of sales, “Guests let us know that they really wanted some healthier combo options, too,” says Charles Ratterree, executive vice president for the Charlotte, N.C.-based chain.

FREEDOM OF CHOICE

To build their own soup, guests move along the ingredient line telling servers which of the 25 selections they want in their bowl. Each 12-ounce bowl gets at least 4 ounces of assorted ingredients, but there's no limit to the number of ingredients they can pile in. Thus far, rice, black beans, chicken, salsa and a sprinkling of cheese are the favorite soup inclusions. Eight ounces of a veggie-based broth is ladled over all to finish.

To get the broth just right, Salsarita's experimented with different consistencies and flavor profiles. The vegetarian base they finally selected is flavored with onion, cilantro, jalapeño and tomato.

First tested at Salsarita's national convention in mid-2007, the soup program got a very positive reaction from franchisees. “That was important to us, because switching over from a made-ready soup to a build-your-own represents a significant operational change,” Ratterree concludes. ■



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What if the measurements that your stakeholders, bosses and competitors judged you by were suddenly invalid? This is what chain menu developers are experiencing as ingredient costs continue to rise at the same time guest counts are shrinking. Operations across every segment are adjusting the way they measure success.

HYPOTHETICAL TESTS, REAL-LIFE EXAMPLES

Donette Beattie, vice president of purchasing and product development for Madison, Wis.-based Country Kitchen International, says that measurement is ongoing. She can see real-time pricing for recipes via a system connected with the chain's distributor. Beattie says her development team can put in hypothetical prices or recipes as well. "Building the database was tedious," she admits. "But once you invest the time to set it up, it is excellent. We can print reports for analysis in meetings or do mock recipes. It's easier."

The family-dining chain has tweaked items for better margins, but prefers to substitute similar ingredients

rather than reduce portion size. It recently tested a turkey product 30 cents less per pound, but its quality was high and it passed the chain's taste panels. Country Kitchen will save 10 cents per plate without hurting the perceived value of the dish.

Beattie does not just look for the cheapest items. "Prices are changing so much now that you have to make sure all the pricing is legitimate," she says. "Now is when we really see who our vendor partners are, which ones are running good, efficient operations and are able to keep their prices in check as well as managing other areas of their business."

STRICT GUIDELINES

Thousand Oaks, Calif.-based Baja Fresh Mexican Grill also explores new ingredients, but only if it creates a better value for the guest and holds margin. "With commodity prices doing what they're doing, and pressure to keep prices down, those high-margin items are becoming fewer and farther between," says Director of Research and Development Joe Rogan.

Theoretical MATH

Menu developers still measure food-cost percentages and margin contribution, but they have had to change the **R&D EQUATION**.



The Basics: Food Costs and Margins

Baja Fresh also stands pat on items that aren't selling. "We don't allow for emotional attachment to menu items that don't perform," Rogan says. "Either it pulls its weight or it's likely to be gone."

He compares menu development in good times and bad to managing a portfolio: "You expect a certain level of performance for each item on that menu. If it is not performing, then you need to remodel or rebuild to enhance the portfolio's performance."

A NEW WAY TO INNOVATE

Gabriel Caliendo, corporate chef at The Lazy Dog Cafe, a three-unit casual-dining chain based in Huntington Beach, Calif., mourns the loss of the freedom to follow food trends. "In the past I might be more interested in developing a flavor profile that I really love based on the trends and then look at costing," he says. "Now I'm at the point where I don't spend much time R&Ding until I've got the cost. I'd be more apt to make a guesstimate of a recipe and cost it to see where I'm at, and then I can fine-tune the recipe."

With an average check of \$13 or \$14, and food cost of 26 or 27 percent, The Lazy Dog has tried not to pass price increases to customers; it has taken small increases on specific products rather than overall percentage increases.

The chain has also held onto products that aren't selling well because they create brand aura. For example, Caliendo says pricey Belgian beers at the bar are weak sellers, "but there are customers that will come in and be very impressed that you carry a beer like that. It's important when you're considering the concept as a whole."

He adds that, overall, the concept is just accepting lower margins. "We're just going to have to roll with the punches knowing that prices can't keep going on the path they're going," Caliendo says.

FEWER GUESTS, SMALLER OPTIONS

Grill Concepts Inc. is also allowing for lower margins to keep customers coming in. "You can't just raise prices; you can't just come up with some cheap items," argues John Sola, senior vice president of culinary for the Los Angeles-based operator of The Daily Grill and The Grill on the Alley. "There just aren't that many people out there going out to eat."

In November, Daily Grill began a prix-fixe menu promotion to lure holiday shoppers. The three-course menu with soup or salad, a dessert and a protein dish, all for \$19.95, was well below the \$27 average dinner check.

Restaurant executives who are not involved in menu development might have a vague idea about what food-cost percentages are but perhaps not how they are calculated.

Simply, food cost is the ingredient cost divided by its menu price. Menu-wide, food-cost percentage equals beginning food inventory plus purchases, minus ending food inventory, divided by food sales.

Costs are trickier than they might appear. Seasonings, oil, lemon juice and flour figure into the cost of chicken piccata, for example. Waste, theft and comped meals all must be considered. Computer software, often tied to the point-of-sales system, eases the workload.

Back in the '80s, Michael Kasavana and Donald Smith of the School of Hotel Restaurant and Institutional Management at Michigan State University developed a system they called "menu engineering," which looks at contribution margin rather than percentages. For instance, a \$30 steak entree with a 30 percent food cost has a margin of \$21, while a \$20 chicken dish with a 25 percent food cost brings in \$15. The steak is more profitable than the chicken.

Kasavana and Smith showed that looking at how much of each item is sold, its ingredient costs and the menu price, you can find which items are popular and profitable (stars), which

are popular but not as profitable (puzzles), just popular (plow horses) or neither (dogs). Of course, you keep the stars and kill the dogs.

To make a high-profit item more popular, menu developers try to market it differently, rewrite the menu description or reposition it on the menu, change its presentation, make it a special, serve it as part of a combo, or change an appetizer portion into an entree or vice versa.

To make a popular item more profitable, they change portion size, check all the ingredients to see if there's any that can be replaced with a lower-cost item without losing quality, use less garnish or a different garnish, or increase the price.

Big idea To make a higher-margin item sell more, Country Kitchen Vice President of Purchasing and Product Development Donette Beattie suggests adding a picture to the menu or strategically placing it near similar items that cost more.

With the stagnant economy, Daily Grill continued and evolved the promotion. One popular iteration replaces dessert with a glass of wine. The fixed-price menus make up 10 to 12 percent of sales, and about half of the orders are the wine option.

Sola is also trying smaller portions at lower prices. For example, he periodically offers a limited-time culotte steak, the tender top piece of the sirloin, with a blue-cheese crust. Usually run with about a 30 percent food cost, he's making it about 32 percent, using a smaller cut and charging a few dollars less.

"Food cost is the last thing I'm thinking about," Sola says. "I'm trying to think about something that people can look at and find value, so that we don't lose market share. If you drive traffic, food cost will come along." ■

BACK OF THE HOUSE/by lisa bertagnoli

A streamlined layout and technologically advanced equipment **QUICKEN TICKET TIMES** at Kings Family Restaurants.

FAST, Forward



A good kitchen remodel has the same effect on a restaurant that a steroid regimen has on a major-league baseball player: The end product is faster and better.

That's why McKeesport, Pa.-based Kings Family Restaurants removed 10 percent of the space from its kitchen and added \$30,000 worth of new equipment. The result: more consistent product, a half-point reduction in food costs, a ticket time that's eight minutes, not 14, and a 20 percent hike in guest counts.

"We're definitely, being in a competitive market, focused on improving execution," says Tom Webb, director of operations at Kings, which owns and operates 35 full-service restaurants. "We basically looked at our kitchen and our product to see how we could execute more efficiently and quickly." The last kitchen remodel, Webb notes, took place at Kings' Bentleyville, Pa., location three years ago.

Kings enlisted the help of its equipment and supplies provider to remodel the kitchen at a restaurant in Beaver, Pa., and design the kitchen for a new

Salad prep, now handled by grill cooks, not servers, is now closer to the pickup window. Salads get to guests faster and in crisper condition.

Separate hot and cold areas at the pickup window (above) ensure better food quality.

Kings location in Neville Island, Pa. In both projects, designers made considerable adjustments to both the equipment package and traffic flow.

SPEND NOW, SAVE LATER

The new kitchen required a new equipment package, removing several pieces and exchanging others for more technologically forward, efficient pieces.



SNAPSHOT

Concept Kings Family Restaurants

Headquarters McKeesport, Pa.

Units 35

2007 Systemwide Sales \$59 million

Average Unit Volume \$1.8 million

Average Check \$7.35

Expansion Plans 1 new store in 2008, plus 5 remodels, with complete remodeling to be finished within eight years

A two-pan microwave steamer can heat a gallon of soup, without scorching, in 12 minutes. Employees are “most excited” about the new piece of equipment, says Tom Webb, Kings’ director of operations.

New gas fryers sport a quicker recovery time as well as an internal system that filters the frying oil several times a day. Longer-lasting oil helps offset the fryers’ higher price tag.



Cooks, for instance, formerly used a salamander broiler to prepare broiled tilapia. The fish is now prepared in a combination microwave-convection oven; the broiler and accompanying hood have been banished from the kitchen. The oven, Webb says, is so efficient that the chain is exploring new uses for it.

Similarly, cooks once heated soup and steamed vegetables on a six-burner range. Now a combination microwave-steamer does that work, and the six-burner range has been replaced with a four-burner model.

Because they do not need constant attention, as do open range or broiler flames, the new steamer and convection oven have reduced food waste, Webb says. As a result, food costs are half a percentage point lower.

Kings also replaced its fryers with higher-priced

models that boast quicker recovery times. The new fryers have an internal system that automatically filters frying oil several times a day. (In a “green” move, Kings contracted with a company that hauls used oil away and turns it into bio-fuel.) Longer-lasting frying oil will make the new fryers more economically efficient in the long run, says Chris Whalen, Kings’ chief financial officer.

Finally, a shaved-ice machine replaces a cube-ice machine. The new machine is more expensive, but the novelty ice is proving popular with guests. “The feedback is amazing,” Webb says. “People like the crunch of it.”

MOVING RIGHT ALONG

A streamlined kitchen design has done its part in improving ticket times. The two major changes: putting salad prep up front, where grill cooks, not

BACK OF THE HOUSE

Faster ticket times have resulted in a 20 percent jump in traffic and 30 percent sales increase at the Kings restaurant in Beaver, Pa.

Kings' new restaurant in Neville Island, Pa., will feature a newly designed interior. Bath, Ohio-based Louis & Partners handled the redesign.

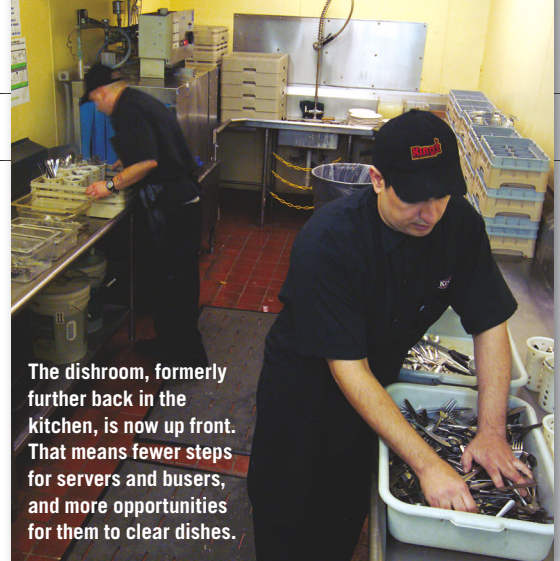


servers, prepare salads; and moving the dishroom forward.

Both changes reduced steps for the employees. The new salad arrangement, complete with new refrigeration space for ingredients, has also improved food quality and safety; grill cooks are ServSafe certified, while most servers are not.

The up-front dishroom keeps the kitchen cleaner. Busers and servers clear dishes more frequently because they don't have to travel the length of the kitchen to deposit bus boxes in the dishroom.

The designers were unable to cut kitchen space from the existing store. However, the kitchen at the new location, in Neville Island, Pa., is 10 percent smaller than existing kitchens. "We have basically shrunk the whole back of the house," Webb says. Newer stores such as Neville Island, scheduled to open in July, will encompass 5,400 square feet, compared to 6,500 square feet for existing locations.



The dishroom, formerly further back in the kitchen, is now up front. That means fewer steps for servers and busers, and more opportunities for them to clear dishes.

BIG MONEY

So far, the new design is paying off, not only in reduced food cost and faster ticket times but in sales: Sales at the Beaver location, which re-opened Dec. 17, are 30 percent higher than pre-remodel, Whelan says.

It was, however, no small investment: Whelan says that Kings spent almost \$500,000 in reconfiguring the kitchens at both the existing and new location. The new equipment package alone, he says, costs about \$30,000 more than the prior package.

But it's money well spent, Whelan says: "If I can buy stuff and make the guest experience better, it's worth it." ■

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Casual-dining chains are **MARKETING VALUE** and networking with their loyal customers to get through these tough times.

How to SURVIVE

Hope springs eternal among restaurateurs. Need proof? In February, the National Restaurant Association released a monthly composite index showing the percentage of operators expecting business conditions to improve within six months exceeded naysayers by a whopping 16 points.

You might wonder what they were smoking. As of press time in mid-March, their business was getting markedly worse, particularly for those in casual-dining. A recent consumer survey of 1,200 people, for example, showed nearly a quarter of respondents saying they had visited full-service restaurants “less often” in the past 90 days vs. the 14 percent claiming “more often,” according to market research firm Technomic Inc.

The results wouldn't surprise anyone who heard casual-dining executives at Bear Stearns' investor conference in New York in March, lamenting declines in same-store sales and guest counts—and, inevitably, profits. “We have lost existing guests and frequency is down,” fretted Ruby Tuesday founder and CEO Sandy Beall.

NPD Group Vice President Harry Balzer, who tracks restaurant sales and guest-count data weekly, feels their pain. “It's a very difficult time for market share gains,” he says. The big question today, he adds, is, “Can you give me a reason to come to your place?”

Granite City Food & Brewery founder and CEO Steve Wagenheim is all over that one. “Just last week someone wanted to know what our frequency rate was. I had him go through some of our stores and

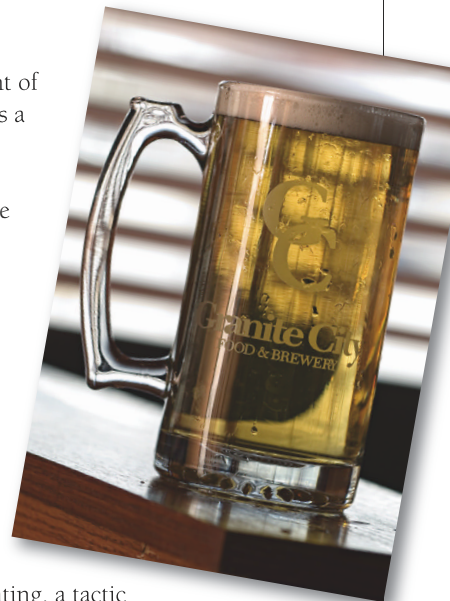
ask the managers. They told him 70 percent of the customers they see come multiple times a week,” he boasts.

His secret: “It has a lot to do with price points, which average about \$14. Our value proposition is very strong.”

To find out whether full-service chains are providing similar hooks, *Chain Leader* recently spoke to executives at seven casual-dining chains. We wondered if the consumer pullback had caused them to re-assess their marketing philosophy and, if so, how.

DON'T DISCOUNT

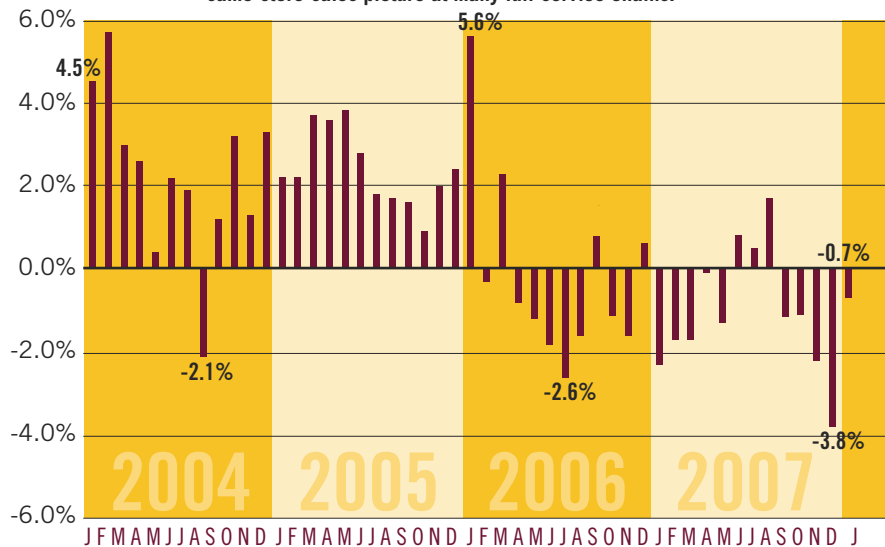
One thing is for sure: These executives haven't changed their minds about discounting, a tactic that they say boosts guest counts but also pressures margins and weakens image. “We will never try to improve sales with a discount. It's a kiss of death,” declares Randy DeWitt, founder and CEO of 13-unit Rockfish Seafood Grill and five-unit Twin Peaks, both headquartered in Dallas, who has successfully used e-mail newsletters to maintain sales.



Granite City Food & Brewery's Mug Club boasts some 75,000 members. When brewers want to promote a new beer, they use an e-newsletter. As many as 1,500 people show up to sample the suds, says founder and CEO Steven Wagenheim.

History of Demise: Same-Store Sales at Casual-Dining Chains

Reductions in consumer spending in the last two years have created an unusually gruesome same-store-sales picture at many full-service chains.



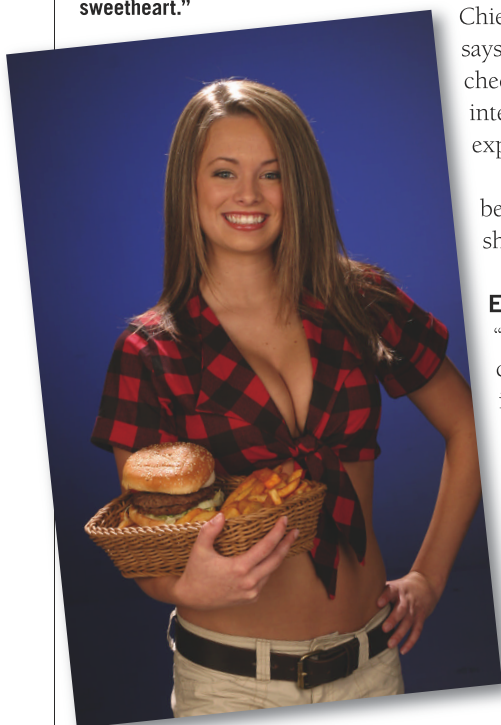
Source: KnappTrack and Goldman Sachs Research

a RECESSION

BIG idea Not Your Average Joe's sponsors 30-second radio spots called "Not Your Average Weekend," which highlight family-friendly events. The chain's message is heard in the spots' 5-second opening and closes.

Marketing plays at Abuelo's Mexican Embassy include photo-rich menu inserts, which highlight the concept's specialty dishes with colorful photography but without mentioning price.

Every month Twin Peaks reminds Friends of the Peaks club members there's always a reason to return. On St. Valentine's Day, for example, servers replaced their uniforms with lingerie. The call to action: "Don't forget to visit your other sweetheart."



"From everything we know about short-term changes like discounting, it isn't the way to go. It digs you into a hole," says California Pizza Kitchen Senior Vice President of Marketing Sarah Grover, who is managing the chain's database "more aggressively" than in the past.

"Discounting is a marketer's nightmare and never a sign of a healthy organization," maintains Kendra Sartor, vice president of brand development for Tampa, Fla.-based The Melting Pot, where sales and guest traffic remain flat. Instead, she adds, "we have to find price-point opportunities."

For example, company restaurants and some franchisees are now using direct mail to promote a \$29 four-course meal, about \$10 less than the regular price. "But we're not saying \$10 off [so] customers see it as perk for those who have expressed an interest in the brand," Sartor explains.

Price points are also important to Bravo Development Inc., the Columbus, Ohio-based operator of upscale Bravo and Brio restaurants. Customers can order wine flights of three glasses for only \$8.99, a deal meant to drive traffic in bars and at tables.

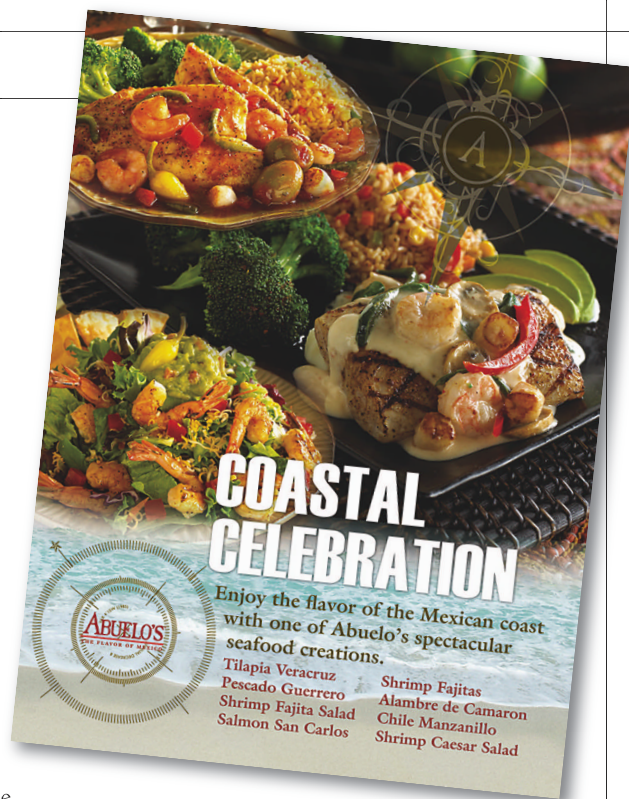
Chief Marketing Officer Karen Brennan says although the offer's goal is to boost check average and customer counts, it's intended to increase the value of the dining experience.

"It is a deal, plus it's fun and interesting because of the experiential part of it," she says.

EMPHASIZE VALUE

"Conveying a value perception and discounting are two very different things," insists Renee Underwood, vice president of marketing for Food Concepts International, the Lubbock, Texas-based parent company of Abuelo's Mexican Food Embassy restaurants. "If you think the only way of achieving value is through discounting, you're shortchanging yourself."

She cautions against using a "\$6.99 loss leader" dinner when you're able to provide a "relaxed meal



and cater to every whim" for \$14.99, something Abuelo's attempts to do, she adds.

Still, lower prices can drive traffic counts. To date, several large chains are bundling meals to add value while avoiding the semblance of discounting. Chili's Sizzle & Spice deal lets customers pick two entrees and two sides from a long list of menu items for about \$15 per person, substantially less than if they ordered the items separately.

That kind of deal makes sense, according to the Technomic survey, which shows 57 percent of respondents mentioning "lower price" when asked to pick a reason for purchasing a combo meal at a full-service restaurant. What's more, 42 percent acknowledged combo meals were a "good value for the money."

Chili's didn't return calls and e-mails seeking comment on the success of the program, but SMH Capital restaurant analyst William Hamilton wrote after a February meeting with Chili's that he "got the sense that...efforts to refresh the Chili's brand with a new menu, new marketing strategy and store re-images are receiving a positive response from customers in the form of sales and traffic."

It's not surprising given mounting job losses, rising gas prices and mortgage resets that value is being pounced on by the marketers we talked to. Not Your Average Joe's, a 14-unit chain of upscale eateries based in Dartmouth, Mass., is launching monthly wine dinners in April to thank e-mail club members, its most loyal customers.

Although prices depend on wines, meals that include dishes on the present menu are discounted, says Vice President of Marketing Sherri Van Saxon.

"At other times we may bring in special products and wines that are paired and the price is a great value but not necessarily discounted," she adds. Bottom line: With sales softening, the new program gives interested customers a reason to make an extra visit.

CLUB CULTURE

E-mail newsletters, often promoted as clubs, can boost frequency if used judiciously. "An e-mail program makes it easier to build a network with existing customers and gives them one more reason to come to your restaurant," says Karen Willison, a former restaurant marketing executive and now a vice president for Fishbowl Marketing, an Internet marketing company specializing in restaurants.

True, says DeWitt, a Fishbowl customer, except when calls to action are missing from the newsletter. He says few newsletters include anything more than a deal. "They send out e-mail that's so generic," he gripes. "I'm not looking for a coupon but a reason to go. It's the only thing that absolutely works."

He says he practices what he preaches. Although sales are "flattening out" this year at Twin Peaks, they follow two years of double-digit growth, DeWitt claims, driven largely by the casual-dining chain's Friends of the Peaks club. It reminds members of events like St. Valentine's Day, when the restaurants' scantily clad servers dress up in lingerie. "We remind [members] to visit your other sweetheart and show a picture of a girl in lingerie," he explains.

Of course, not every marketer has or wants sex on her side. Take California Pizza Kitchen's Grover, who recently stepped up the Los Angeles-based chain's

To blunt the perception of high prices at The Melting Pot, Vice President of Brand Development Kendra Sartor cooked up a direct-mail deal offer that features dinner for two for \$67—considerably less than the \$80 regular customers might otherwise spend.

Marketing 101: A Guide for Bad Times



Karen Brennan, a restaurant marketer since 1984, has an industry-wide reputation for turning around struggling chains in good times and bad. Today, as chief marketing officer for Bravo Development Inc., in Columbus, Ohio, she's attempting to maintain sales and guest counts in a tanking economy. The veteran provides some guidelines for marketers in the same boat.

- **Do not to start and stop a marketing program.** An erratic pattern doesn't help you in a tough situation.
- **Emphasize the draw of your brand in offers, not the deal.** An offer doesn't just mean dollars off. Make the deal the exclamation point of the promotion.
- **Broaden your view of value.** Don't look at it as merely an opportunity to dump a coupon.
- **Understand the occasions your brand is positioned for.** The more facets you can put forward to guests, the more potential visits you create.
- **Plan well even if there's little time these days.** If you have a methodology to fall back on, you won't risk re-inventing the wheel.
- **Don't focus on problem restaurants (as important as they may be).** Focus, instead, on maximizing the opportunity for successful locations. The incremental revenue you generate in these units is disproportionately profitable to the rest.
- **Get a reality check from operations to see whether your projections are on target.** The way to win is to come up with numbers everyone can believe in.



"We are shooting for flat [same-store sales and traffic] this year, and we will be lucky to get them." —**Kendra Sartor**, vice president of brand development, **The Melting Pot**

COVER STORY

Casual-dining chains are using e-mail clubs to boost frequency by focusing on value and experience rather than price promotions.

New and unusual product introductions like Miso Salad remain a mainstay of marketing at California Pizza Kitchen. Says Vice President of Marketing Sarah Grover: "Our marketing strategy and menu development plan hasn't changed at all."



e-mail efforts by hiring Fishbowl to manage the chain's growing database of e-mail addresses.

Her goal is building guest counts, which Piper Jaffray senior research analyst Nicole Miller Regan predicts will be down 7.2 percent for the first quarter of '08.

"We're finding if we step up communications [about new products and store openings] with these people, they are more likely to come in more often," Grover says.

Wagenheim remains convinced that the best marketing programs remain within the four walls. "I don't think traditional marketing is the only way to go," he offers. Yet like other chains, St. Louis Park, Minn.-based Granite City communicates events like specialty-beer offerings via the Mug Club, which boasts a membership of 75,000, according to Wagenheim.

"Perhaps the most important marketing we do is to spend a lot of money on training managers to take care of guests," he explains. "Our No. 1 goal is to turn guests into advocates." That they come more often doesn't hurt either. ■

ON THE WEB: Read how budget steakhouse Sizzler markets its wares during the economic downturn at www.chainleader.com.

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Veterans BENEFITS

McAlister's Deli plans to open 52 restaurants this year, topping last year's mark of 34. While the Ridgeland, Miss.-based sandwich chain plans to keep 15 percent of the system company owned, franchisees will handle the bulk of growth. And those franchisees will be multiconcept, multi-unit companies.

Within the past year, McAlister's has signed franchise agreements with four major groups to open restaurants in Virginia, Colorado, Arkansas and Texas. The quartet joins a half-dozen or so franchisees "into their teens in terms of restaurants," says Phil Friedman, McAlister's chairman, president and chief executive officer.

Franchisees and franchisor say the strategy to go with seasoned operators, rather than single-unit franchisees, is a win-win situation. McAlister's, now at 267 units, benefits from the expertise these franchisees possess; there'll be minimal corporate hand-holding for site selection, hiring, training and other necessities.

"I like to have franchisees who have enough territories and capabilities to become companies in themselves," Friedman says. "They can do a lot on their own; they become growth engines."

According to franchisees, the partnership will allow them to expand with a brand that has staying power.

"We've been searching for a number of years for something that's going to be healthy," says franchisee Glenn Miller, who signed a 10-year,

17-store franchise agreement with McAlister's last June. Miller and his brother, Ian, own and operate 19 Arby's restaurants in central Illinois. They'll open their first McAlister's in Virginia later this year.

Three McAlister's franchisees will eventually share Virginia—albeit in separate

Franchisees Brian Moore (l.) and Steve Davis bought a company-owned McAlister's in Searcy, Ark., and will open a second unit later this year. Davis is one of four McAlister's franchisees with a connection to Mazzio's.





SNAPSHOT

Concept McAlister's Deli

Headquarters

Ridgeland, Miss.

Units 267

2007 Systemwide Sales

\$307 million

Average Unit Volume

\$1.4 million

Average Check \$7.20

Expansion Plans

52 in 2008

designated market areas—a factor Miller says works in the concept's favor. Franchisees operating in close proximity is “a massive signal of faith to me that the economic model is good,” he says.

THE DATING GAME

Courting proven franchisees is no easy feat, given the competitive landscape. “These guys have all the options in the world,” Friedman says of successful multiconcept and multiunit franchisees. “They’re well-capitalized. They have their own little teams.”

“There’s a lot of competition” among franchisors for such franchisees, agrees Dan Rowe, president of Fransmart, an Alexandria, Va.-based franchise consulting firm. But, Rowe adds, “there aren’t that many great options for franchisees who want to build large multiunit companies.” McAlister’s seven-figure unit volumes, plus its substantial dinner business, give the concept an edge over other sandwich chains, Rowe says.

McAlister’s has made several adjustments both for growth’s sake and to court such high-powered franchisees.

One major step for the 18-year-old concept is a redesign that softens and updates both the interior

Aggressive menu development and substantial dinner business—35 percent of sales—have proven attractive to prospective franchisees.



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A remodel, which debuted last year, softens the interior; sales at remodeled stores have seen double-digit sales increases.

A club sandwich, one of the 100-plus items on McAlister's menu, is the best seller, accounting for 7 percent of sales.



Photo by Kelly Quinn

BIG idea To build checks and court more dinner customers, McAlister's has added a selection of dinner platters like meatloaf. It has helped boost comp sales by 3 to 4 percent.

and exterior. Unveiled in July 2006, the redesign has boosted sales volume by double digits, says Patrick Walls, McAlister's senior vice president and chief franchise officer. So far, 22 new stores, built at a cost of about \$650,000 each, feature the look, and five existing stores have been remodeled at a cost of \$150,000 to \$175,000 each.

DOING DINNER

Another significant change is the addition of dinner platters to the menu. Dinner already accounts for 35 percent of sales, Friedman says, but those are sandwich sales. To build checks and court more dinner customers, the chain has added a selection of platter meals, among them bone-in chicken and meatloaf. The platters, at \$8.99 each, are responsible for improving comp-store sales 3 to 4 percent since their rollout last fall, Friedman says.

The focus on the menu is crucial to franchi-



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BIG idea McAlister's benefits from the expertise of seasoned operators, who need minimal hand-holding for site selection, hiring, training and other necessities.



Photo by Kelly Quinn

McAlister's remodel entrenches its appeal to women, who account for 65 percent of the client base.

Unit volumes rose 1 percent to 2 percent after McAlister's launched a rigorous guest-satisfaction program, which includes both guest research and staff training.

Last year McAlister's cleared the menu board of some slow-selling sandwiches to make room for new dishes like the \$7.39 Fiesta Chicken Salad.

sees like Miller. "I am absolutely captivated by McAlister's food," Miller says. "David [Groll, executive chef] has got fabulous enthusiasm for taste." Groll, former corporate executive chef at Arby's, was involved in product development and testing of Arby's Market Fresh sandwich line.

Franchisee Steve Davis, who with business partner Brian Moore will develop stores in Arkansas, also says the menu is key. "I have seen a commitment not only to high-quality food but to menu development and enhancement," says Davis, who left his post as senior vice president of operations at Mazzio's Corp. in June of 2007 to become a franchisee of Mazzio's, a Tulsa, Okla.-based pizza chain. Davis and Moore will acquire a company-owned McAlister's, then open their first unit later this year. They will continue as Mazzio's franchisees.

THE MAZZIO'S CONNECTION

In a curious twist, Davis is one of four McAlister's franchisees with a connection to Mazzio's. Texas franchisee Kelly Saxton once owned and operated 34 Mazzio's; he sold them five years ago to focus on McAlister's. Former Mazzio's President Craig Bothwell now operates 12 McAlister's locations in Oklahoma and Kansas. Ridgeland, Miss.-based franchisee Tommy Johnsey operates both Mazzio's and McAlister's stores.



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Franchise Developer

Profiles in Growth: Wing Zone

In 2006, Marty Abercrombie left the Fortune 500 scene—where he had been working in merchandise planning for Saks Department Store Group—and took the franchising plunge with Wing Zone, a takeout/delivery chain with a menu featuring 25 flavors of chicken wings. “I felt like it was a great business idea,” he says. Based in Tuscaloosa, Ala., he quickly became the first Wing Zone franchisee to have a \$1 million sales year since the chain started franchising in 1999. He soon opened two more units and plans to open another two by 2010. Here are his thoughts on expansion and growth.

Q: What was your formula for success?

A: We focused on customer service, raised the pay for our delivery drivers and invested money in marketing. I also got more involved with the university, offering discounts during finals and a “roommate special” with two baskets.

Q: Why did you decide to expand?

A: I realized early on that I needed to either grow or get out. Working in one store 24/7 was not what I wanted to do. The other aspects—marketing, financing, personnel development—are more exciting to me. I also felt like it was the right time to expand Wing Zone in this area, and I wanted to lock down the development rights.

Q: How do you handle the extra locations?

A: Wing Zone’s technology systems let me monitor things at home on a PC via webcams in the stores, and dial into the POS systems. That way you can keep your finger on the pulse of the business at several locations without being there.

Q: How do you plan to improve?

A: I’d like to build more infrastructure and depth in the organization, so as opportunities or crises dictate, we can move people over and not miss a step. I want to build a company where I’m loyal to my employees and they’re loyal to me, and I can give them opportunities for growth.

Q: What are your goals?

A: I’m trying to grow at a pace that’s supportable and open one store a year. I’d say the sales target for next year is to be over \$3 million.

Q: How do you see the landscape for multiunit and area development?

A: I definitely think it’s the way to go. If you’re getting into a business, really to be successful and compete, you’ve got to be a multiunit operator.



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McAlister's commitment to menu development has attracted several multiconcept franchisees.



Davis, for one, believes the connection is more than coincidental. Both brands, he says, are similar in their focus on food as well as their "high touch" service models. "Creating an experience where we interact with guests is important in both concepts," Davis says.

Phil Friedman (r.), McAlister's chairman, president and CEO, and Patrick Walls, senior vice president and chief franchise officer, say the competition for successful franchisees is fierce, and for good reason. "They are ready to go on Day One," Walls says.



EASY DOES IT

Despite the experience of the new crop of multiconcept franchisees, McAlister's insists that franchisees progress slowly, allowing them to open only one restaurant their first year in the system.

Their reaction? "They look at us like we have three horns," Walls says. Still, McAlister's insists on the conservative route. "The way we've grown is to be very conservative," Walls says. "Everything we do, we go back to 'will this make franchisees more profitable, more successful?'"

The concept, he adds, is "deceptively simple." While food preparation is not difficult (only baked potatoes and cookies are prepared on site), the service element is. "If their table hasn't been 'touched' once or twice during a visit, customers feel they've had a bad experience," Walls explains.

Miller understands the slow approach, but perhaps doesn't agree with it. "We can convince them we can open a little faster," he says. He says his Arby's stores outperform the system; plus, "we invest heavily in our stores, in our people."

Miller says he initially looked into becoming a franchisee of Jason's Deli, a Beaumont, Texas-based sandwich chain. Then he received a franchise flier from McAlister's in the mail and mentioned it to his 22-year-old daughter. "When my daughter said, 'Oh my God, McAlister's, that's fantastic,' that was interesting," Miller says. ■



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Change-management tools can pave the way for successful organizational transitions.

CHANGE Agents

Whether it's rolling out a new menu or buying a restaurant company, change can be uncomfortable, confusing and complicated. That's why many executives have turned to change management, a set of strategies designed to smooth transitions and help employees accept and embrace change. The 2007 Change Management Survey Report from the Society for Human Resource Management cited communication breakdown and employee resistance as the biggest obstacles to change. Here are some of the best ways to overcome those barriers.

1 CREATE A ROADMAP

Before launching any organizational change, conduct an organizational audit and develop a comprehensive plan, making



sure it aligns with the company's culture.

When Seattle-based Restaurants Unlimited Inc. announced in 2007 it would buy Portland, Ore.-based Pacific Coast Restaurants, RUI put together a transition team of key executives from marketing, operations, human resources and information systems as well as the CEO and COO. They developed a plan to merge the companies and identified roles for the key leaders.

"Identify the organizational structure that's needed to drive the transition, both the long-term structure of the organization and also what

short-term support you need to get through the transition activity," says Lisa J. Anderson, vice president of human resources at RUI.

2 COMMUNICATION AND COLLABORATION

Clearly communicate what changes will occur, why the change is important and how it fits in with the company's vision and mission.

Involve key stakeholders and encourage them to think outside the box. "Allow people to make mistakes," Anderson says. "Have a good recovery plan so that you don't get stuck."

3 METRICS AND REWARD SYSTEMS

Measure the success of the change-management process and reward employees who meet or exceed those metrics.

For example, RUI planned to eliminate several human resource and accounting positions at Pacific Coast Restaurants, but it needed those employees during the transition. So RUI gave them monetary rewards if they met certain metrics. When the employees left, RUI celebrated their tenure with dinners, flowers and gift certificates.

While most companies offer monetary rewards, don't underestimate the power of a compliment, says Ken Moore, president of Ballston Spa, N.Y.-based Ken Moore Associates, a management consultancy.

4 DEVELOP YOUR PEOPLE

To foster an atmosphere that embraces change, companies should have development programs that identify and train potential leaders, says Grant A. Schneider, vice president of human resources at Livingston, N.J.-based The Briad Group, a franchisee of 43 Wendy's and 70 T.G.I Friday's.

Moore says companies should pay for college courses so employees learn about the industry and the environment it operates in. He says that leads to curious employees who look for better ways of doing things. ■

resources & LINKS

SOCIETY FOR HUMAN RESOURCE MANAGEMENT conducted the 2007 Change Management Survey and encourages companies to have their HR professionals take the lead in change initiatives. www.shrm.org

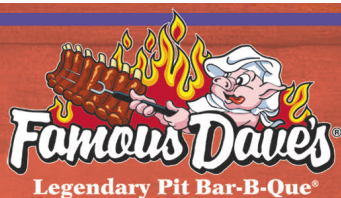
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CHANGE MANAGEMENT BLOG, by Holger Nauheimer, a management consultant, director of the Change Facilitation Associates Network and creator of The Change Management Toolkit. www.change-management-blog.com

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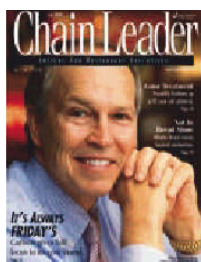
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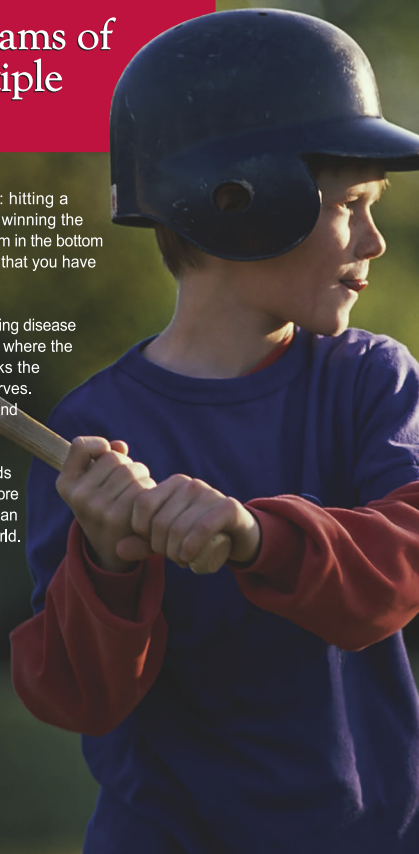
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Best in SHOW

The winning recipes from Food Network's "Ultimate Recipe Showdown" make their way onto T.G.I. Friday's menus.

Chain Leader spoke with T.G.I. Friday's the week it launched a multimillion-dollar promotion with cable television's Food Network in February. Spotlighting home cooks, Food Network's "Ultimate Recipe Showdown" program features nine finalists competing in three recipe categories under one food theme each week for six weeks. Every week the show chooses a winner, who receives \$25,000 and has his or her recipe featured on T.G.I. Friday's menus for a week. Here's what Scott Randolph, senior director of culinary research and development for the chain, had to say about the competition, adapting the recipes to fit T.G.I. Friday's menus and more.

Featuring winning home cook recipes from Food Network's "Ultimate Recipe Showdown" on T.G.I. Friday's menus sounds like a lot of fun. What prompted the idea?

T.G.I. Friday's has been looking at the opportunity to team

with the Food Network for a while. We've been testing concepts of this nature for a long time, such as a "best of" competition, so we believe this partnership really works and is going to be successful for both of us.

Scott Randolph, senior director of culinary research and development for T.G.I. Friday's, is adapting the winning recipes from the Food Network's "Ultimate Recipe Showdown" to fit the chain's menus.

The inaugural show aired Feb. 17 and focused on three chicken recipe categories. What were your impressions of that first show and the dish that won?

It was a very close competition, which was really cool, but I'm really glad

Amparo Alam's recipe for Peruvian Herb-Roasted Chicken won. Everybody does gumbo and a lot of people do beer-can chicken, but who do you know that does a Peruvian Herb-Roasted Chicken?

How did you adapt it for Friday's kitchens?

We stayed with the exact same flavor profile that Amparo created. The wonderful cumin, olive oil, garlic, and all those herbs and seasonings and flavors that she used, we actually used in our recipe. Adapting the dish to work in 600 stores consistently, we removed some of the herbs she used during the roasting process, adding them on at the end, so we're still getting that true rich green color on every single piece of chicken.

What goes on the plate with the chicken?

Amparo's recipe called for yucca fries, but we didn't think those were ready for prime time. But it just so happens we've been working on sweet-potato fries for almost three months now, and they were a perfectly natural fit for this product. There's also a cup of ahi-pepper sauce that goes on the plate that gives a nice bold sweetness up front and then a lingering heat.

How will you promote this dish and the other winners?

Following the next six Sunday shows, the menu will have inserts about the winning items and information about the people behind the recipes. We'll also be doing POP on tables. Our national advertising team has also shaped a commercial that centers around the show's host, Guy Fieri, and the fact that the only place you can get a taste of the "Ultimate Recipe Showdown" recipes is at T.G.I. Friday's.

Does this promotion signify a new direction that you may go with your limited-time offers?

This is just one step further in the right direction. Instead of being "It's all about bacon" or "It's all about garlic," this is almost like a food-a-palooza. It's the next stepping stone to educate guests on new and interesting products. ■

ON THE WEB: Read or listen to a downloadable extended interview with Scott Randolph at www.chainleader.com.

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