

October 2005

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# Chain Leader<sup>®</sup>

INSIGHT FOR RESTAURANT EXECUTIVES

Vol. 10, No. 11/\$12.50

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Remodeled Denny's stores  
feel more like home.

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**Ground Control**  
How Anton Airfood  
upgrades airport dining.

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**BIG FISH, SMALL POND**

McCormick & Schmick's exploits  
the lack of upscale seafood players.

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*Saed Mohseni, CEO,  
McCormick & Schmick's  
Seafood Restaurants*





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Burgerville shakes are now blended by machines powered by the wind.

**ENERGY**

## Harvesting the Wind: The Holland Inc. Moves to 100 Percent Sustainable Power

What would it take for you to spec a product if you knew it was going to cost you at least 10 percent more than it does now? For The Holland Inc., the answer was sustainability.

The Vancouver, Wash.-based parent of 39-unit Burgerville and two-unit Noodlin' fully converted to wind power this summer for all its restaurants and corporate offices.

Chief Operating Officer Jeff Harvey says the switch supports both the local community and the company's long-term bottom line.

Holland believes in investing in its community and has a history of using locally

sourced sustainable goods. For example, it uses only Oregon Country Beef from a consortium of local organic cattle ranchers. Beyond goodwill, Harvey says, it supports the economic health of the area and its consumers.

Looking ahead, "Renewable energy will be far more stable and cost effective than any other energy," Harvey says.

He adds that both customers and employees appreciate the company's values-based decisions: "There's a growing attitude in the market about energy choices we can make that are more sustainable."

Because the restaurants, all in Northwest Oregon and Southwest Washington, use many different utility companies, Holland enlisted the help of the nonprofit Bonneville Environmental Foundation with the logistics. Bonneville estimates that the move will mean 17.4 million pounds of carbon dioxide will not be emitted each year, the equivalent of removing about 1,700 cars from the road.

Holland is not the only restaurant company to move to sustainable power. In June 2003, Washington, D.C.-based Austin Grill converted its seven restaurants to wind electricity. **CL**

**Take Note**

In "Bay Watch," page 77 in our September issue, *Chain Leader* misidentified San Francisco's Chestnut Street and misstated the number of Pasta Pomodoro units; the correct number is 45. We regret the errors.

### Industry Calendar

**OCT. 5-6**

**The MultiCultural Foodservice & Hospitality Alliance Symposium 2005**

*Marriott Marquis, Atlanta*  
Executives discuss the tough topics related to diversity and learn best practices for making inclusion profitable.  
**Contact:** (401) 461-6342, michelle.miller@mfha.net, www.mfha.net

**OCT. 20**

**Learning, Sharing, Networking: Powerful Strategies for Recruiting Success**

*California State Polytechnic University, Pomona, Calif.*  
The Association of Hospitality Recruiting Executives presents strategies and tactics for recruiting the best employees.  
**Contact:** info@hreonline.org; www.hreonline.org

**NOV. 3**

**People Report's Best Practices Conference**

*Renaissance Dallas Hotel, Dallas*  
This year's event focuses on the partnership between human resources and operations executives for the benefit of the bottom line.  
**Contact:** (972) 364-0490; info@peoplereport.com; www.peoplereport.com

**NOV. 13-15**

**International Hotel/Motel & Restaurant Show**

*Jacob K. Javits Convention Center, New York*  
Over 45,000 attendees and 1,500 exhibitors meet for three days of business, education and networking.  
**Contact:** (914) 421-3206; ihmrs@glmshows.com; www.ihmrs.com

**NOV. 13-16**

**Presidents Conference**

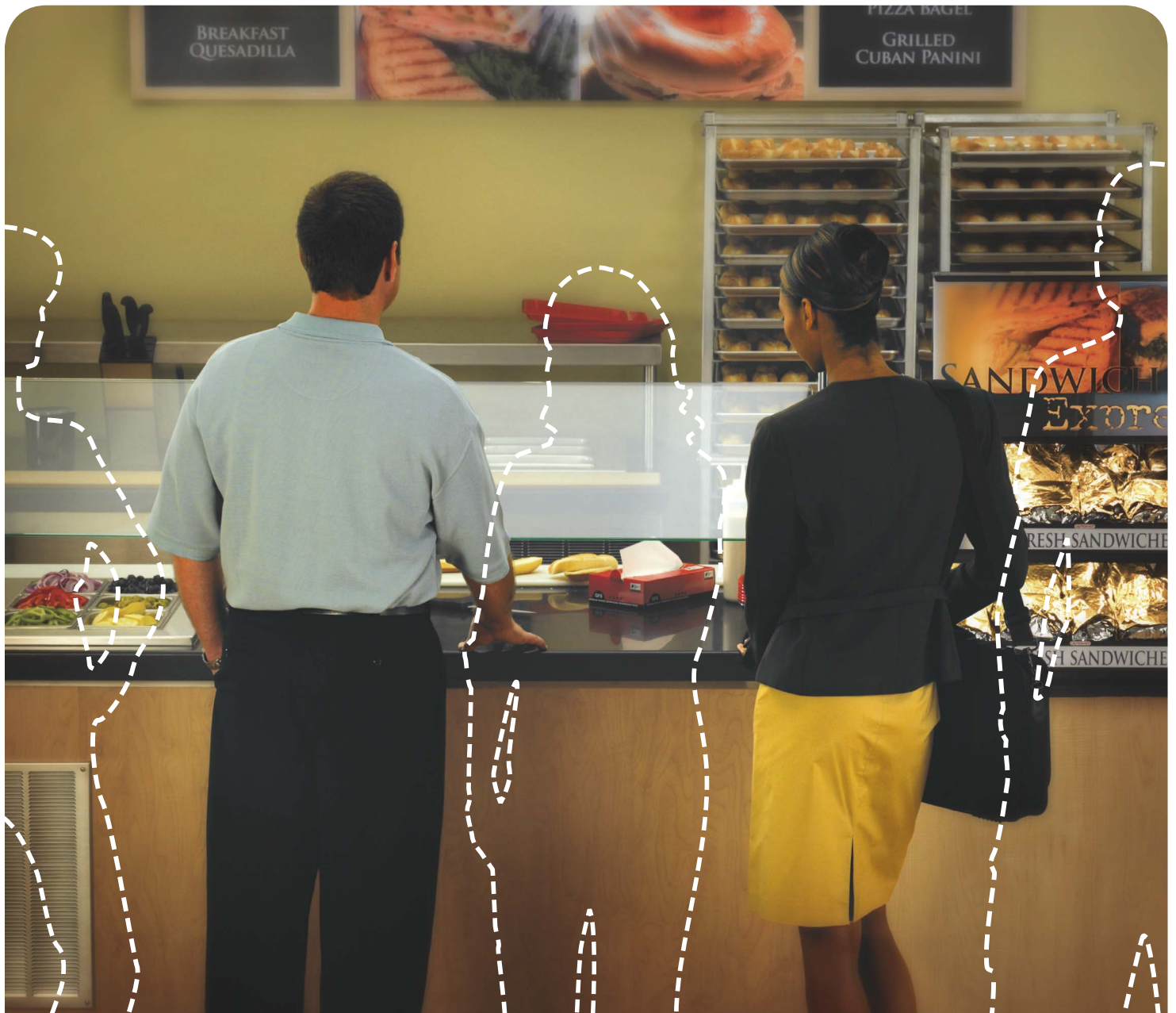
*Desert Springs, a JW Marriott Resort & Spa, Palm Desert, Calif.*  
The International Foodservice Manufacturers Association and International Foodservice Distributors Association present their annual event for industry leaders.  
**Contact:** (312) 540-4400; ifma@ifmaworld.com; www.ifmaworld.com

**NOV. 16-18**

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# Chain Leader

INSIGHT FOR RESTAURANT EXECUTIVES

Vol. 10, No. 11  
October 2005

## STORYBOARD

### 22 Station Identification

Firehouse Subs has launched a new TV campaign that features actual firefighters talking about their profession, relationships and appetites, but they don't mention Firehouse Subs. Instead, the public service announcement-style spots use voice-overs and text to convey the brand message so the firefighters don't have to. The ads are part of a comprehensive branding campaign designed to help the Jacksonville, Fla.-based concept become one of the top five sub chains in the country.

By Margaret Littman



## RESTAURATOUR

### 26 Warming Trend

Denny's has replaced its diner-style decor with a homey look featuring wood, earth tones and low lighting. Wood finishes, dark flooring, dark vinyl booth coverings and region-specific art are all meant to turn the bright space into an all-American family-dining concept rather than a theme concept. According to the company, check averages and unit volumes at the redesigned stores are higher than expected.

By Lisa Bertagnoli

## TOQUE OF THE TOWN

### 33 Mountain Elevation

Corporate Chef and Director of Culinary Philip Butler has broadened Bugaboo Creek Steak House's menu with more mountain-style comfort foods and value pricing. Butler has updated some core menu items and created seasonal specials while formalizing the chain's menu-development and testing procedures. The company hopes that this approach will widen its customer base, perk up flat sales and increase frequency.

By Monica Rogers



## COVER STORY

### 44 Big Fish, Small Pond

After going public last year, McCormick & Schmick's Seafood Restaurants now has the capital, as well as the cash flow, to ramp up expansion in an effort to be the first chain to dominate the fresh seafood niche on a national level. CEO Saed Mohseni plans to grow the Portland, Ore.-based chain prudently, opening the bulk of new units in existing markets as well as affluent suburbs and nontraditional locations. He believes the chain will grow to somewhere between 150 and 200 units in 32 markets by 2007.

By David Farkas



## MULTICONCEPT OPERATOR

### 52 Ground Control

Anton Airfood has upgraded airport dining by bringing a mix of original concepts, local brands and national franchises to airports across the country. The company attributes its success to the extensive research it conducts of the local market before submitting proposals, resulting in higher revenues per enplaned passenger. As the third largest player in airport foodservice, Anton Airfood says it's on track to generate \$200 million in systemwide sales by 2008.

By Margaret Littman

## TECHNOLOGY

### 60 Full Speed Ahead

Chains around the country, including Bojangles' and Damon's Grill, have recently installed speed-inducing technology at drive-thrus and takeout counters that have boosted sales and reduced wait times. The technology ranges from a mid-tech combination of cameras and sensors to swipeless credit-card readers.

By Lisa Bertagnoli



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# A Lesson from Katrina

**B**y the time you read this, New Orleans will be pumped free of water. The levees restraining Lake Pontchartrain will be effective, if only temporarily held together with sandbags, debris and chewing gum. Those who had to abandon their homes will be thinking longer-term about whether to return and how to feed, clothe, house and school their families until then. Politicians and journalists will still be trying to get to the bottom of what went wrong with our country's emergency services.



*The hurricane brought out more than American spirit and government mistakes.*

**MARY BOLTZ CHAPMAN,**  
EDITOR-IN-CHIEF

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This isn't another column lambasting government agencies that should have done something different.

And it's not about the many examples of Americans supporting one another in a time of crisis, including all of the restaurant companies who continue to generously contribute time, money and other resources. Though they certainly deserve

recognition and thanks.

## Potential Threat

Rather I'm issuing a warning. The images of our country's delayed and flubbed rescue efforts reached the TV screens of viewers all over the world. Some of those viewers don't have sympathy for Katrina's victims. What they saw was how easy it is to bring a whole city to its knees, spread disease and turn private citizens against their government.

So? What does that mean for restaurant operators? This is a reminder that there are people out there who want to see the United States suffer and will use terrorist acts to do so. It is a call to do whatever you can to prevent that. In our business, that means ensuring a safe food supply.

Late last year the Food and Drug Administration announced new rules that would enable it to trace the source of any food contamination. The regulations, issued under the 2002 Bioterrorism Act, require that food facilities register with the FDA and keep sourcing

records. But no enforcement date has been set, and they don't do much to make our country's food chain any less vulnerable.

## Secure the Supply Chain

Protect your customers and your company by knowing who your suppliers are and visiting them often. Ensure that your distributors and suppliers use secure manufacturing, storage and transportation methods. Challenge—demand if you have to—them to look further back in the supply chain, all the way to how and where raw ingredients are sourced. Support radio frequency identification tagging of livestock to improve traceability, even if it costs a little more.

Lobby for more FDA inspections of food processed in the United States as well as overseas. And for the authority for the agency to inspect international plants.

You must protect the food within each restaurant, too. Darden added food-security measures to its routine food-safety audits. Auditors watch for unlocked doors and food sitting unattended on the dock.

For more ideas, the FDA's Center for Food Safety and Applied Nutrition's "Food Security Preventive Measures Guidance" is available at [www.cfsan.fda.gov](http://www.cfsan.fda.gov). It suggests ways to assess and improve your food-security procedures, from the obvious (don't accept product that looks like it has been tampered with) to the culture-building (involve unit-level staff in the creation, implementation and policing of the program).

Hurricane Katrina has taught us a lot about the American spirit and some of our flaws. Let it also teach us to prevent and prepare for other foreseeable crises. **CL**



# Who would have thought?

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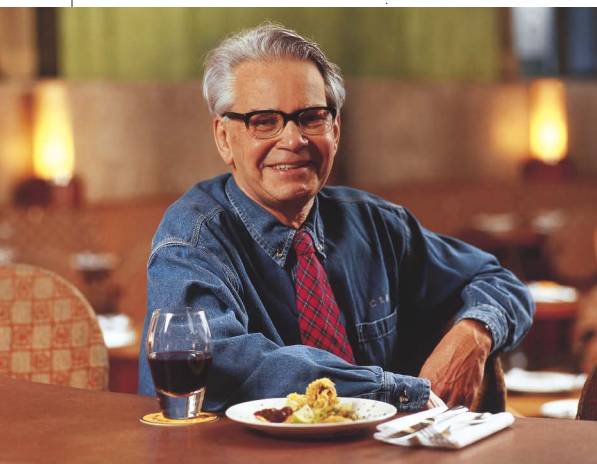
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# In Katrina's Wake

Despite some four years of work and an estimated tens of billions of dollars that was spent preparing for a potential hurricane along the Gulf Coast, the government simply was not ready when the inevitable devastating Katrina hit on Aug. 29. Now the country seems to be fixated on assigning blame rather than focusing on how to help the victims.



*Forget the blame. Thanks to the companies that are helping in this time of need.*

## Something to Talk About

Discussion of the hurricane permeated the National Restaurant Association's 20th annual Public Affairs Conference on Sept. 12. The event drew 700 people, including state delegations from 49 states and Washington, D.C., to the Grand Hyatt Hotel in Washington.

Columnist Robert Novak, who produces the newsletter, *The Evans*

*Novak Political Report*, took a tough position. "Everyone in power really knew the levees wouldn't hold this time," he said. "They knew it would happen sooner or later yet did nothing about it."

But most of the attendees looked toward solutions and an optimistic future.

Mike Whalen, R-Iowa, who is running for a congressional seat in 2006 and has nine hotels and 17 restaurants, said donating meals and other resources is what is important now and that "this is not the time to take political advantage."

Vice President Richard Cheney assured the audience: "We will get the job done. The National Guard, communities and churches are helping people rebound." Cheney thanked the attendees for their support and compassion for the hurricane victims.

## Appreciation Day

Instead of pointing fingers, the restaurant industry is doing what it can to help, and it deserves thanks. It is rallying participation in Dine for America, a national dine-out event taking place Oct. 5. Restaurants nationwide

are banding together to support the American Red Cross disaster relief fund for those affected by Katrina by donating their profits from that day's business. Craig Miller, NRA chairman and Ruth's Chris Steak House CEO, hopes the dine-out campaign can raise \$100 million.

"As an industry, we can demonstrate our collective support and solidarity during this difficult period," Miller declared. "And we can witness how 900,000 restaurants and 12.2 million employees nationwide can make a meaningful difference in showing that we are truly the cornerstones of our community."

## Close to Home

This topic is personal to Miller. The hurricane forced Ruth's Chris headquarters out of Metairie, La. "Due to the situation in New Orleans and the personal situation of our employees relative to the lack of housing and infrastructure, we have allowed our team to permanently relocate to Orlando," Miller said.

In addition, two Ruth's Chris restaurants in New Orleans are not currently operating, and an outpost in the Hard Rock Hotel and Casino in Biloxi, Miss., scheduled to open Sept. 1, has been delayed. The company hopes to open that unit next year.

But many restaurants will not open again, and many industry employees are going to need support and, in some cases, a new start. Restaurant owners and operators can get involved by helping promote, organize and donate in whatever manner they feel is most appropriate.

Hats off to all those who are helping in this time of urgent need and in the months and years to come. **CL**

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—Carlos Bernal  
President, FoodBrand



Carlos Bernal not only believes in the value of strengthening his team, he lives it. At FoodBrand, he’s successfully lowered employee turnover by creating a “unifying culture” and a workplace environment that instills a sense of pride and satisfaction.

As a *talent and team developer*, Carlos is also a strong advocate of succession management, encouraging the development of future leaders. Which is why he highly recommends The Elliot Leadership Institute’s **10 Dimensions of Executive Leadership™**, the most critical measures of industry success. Using these insights, the Institute has been extremely effective in providing FoodBrand team members—and executives across the country—with the “tools” they need to grow both personally and professionally. Based on validated research and proven principles, this innovative suite of online products and services was developed by hospitality leaders for hospitality leaders.

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# Street Smarts

Mark Kalinowski gives the lowdown on picking restaurant stocks. **BY DAVID FARKAS**

I have made my share of mistakes over nine years on Wall Street," says Mark Kalinowski of New York-based Buckingham Research Group. "But hopefully at the end of the day, the good calls outweigh the bad." They have. The *Wall Street Journal* named the 35-year-old "Best on the Street" this year, and *Institutional Investor* ranked him second among restaurant analysts in 2004. Kalinowski recently revealed how he picks winners.

**You chided investors when you wrote, "[Wendy's] shares have only risen by 2 to 3 percent since July, suggesting that at least some investors still care about such obscure topics as fundamentals and valuation."**

I don't know that I'd call it chiding. I don't think either valuations or fundamentals are the end-all, be-all of stock picking. But you want to frame stocks with a valuation approach. If you have a company that has 10 percent earnings growth, is it rational that it gets a 25 times P/E? In most circumstances,



no. Fundamentals play another role. Are they better or worse than what Wall Street expects?

**Right now, Wall Street seems bullish on restaurant stocks.**

The general bullishness out there suggests that expectations are somewhat high right now. That leads to me being not so bullish.

Look at Outback Steakhouse. We are projecting 15 percent growth for next year. That gets us to an EPS of \$2.77. However, if you look at consensus expectation, it's at \$2.87.

**What's the Street expecting that you're not?**

There's an expectation of lower beef costs next year. That points out risk in this stock. Say Outback does enjoy lower beef costs. Well, to

some extent, then, the Street expects it. And the stock may not react all that meaningfully. The trick is for companies—and it's hard to do over time—to beat the Street's expectations.

**You've praised P.F. Chang's for intentionally being conservative on guidance.**

It's a smart approach in general. But remember, the Street has a mind of its own. Take what happened recently to Starbucks, which gave same-store-sales guidance of 3 percent to 7 percent. Then same-store sales went into the high single digits. The stock price declined, even though the company was achieving the high end of its stated target range. So it's not what a company communicates, it's what the Street expects that matters most.

**How does your casual-dining wait-time survey affect expectations?**

Here's a good example. After the first case of mad cow disease in the United States was reported in December 2003, stocks related to beef traded down. But the survey said steakhouse chains' wait times grew. Stocks were down because investors were building in some risk that customers wouldn't go there. It helped show business was not slowing.

**What's your top pick this year?**

Domino's Pizza, up 30 percent. Franchisees are spending 33 percent more on national advertising compared to last year, and that is leading to a meaningful lift for sales and earnings. Domino's is also one of cheapest stocks we cover on P/E basis. We think it can go to \$29. **CL**

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Señor Frog's units sport a tropical look using thatched materials, bamboo, wood, and a palette of orange, yellow, red and green.

Señor Frog's created Aqua Tacos to be the Mexican version of lettuce wraps. It features grilled chicken mixed with cactus leaves, panela cheese, tomatoes and red onions tossed with cilantro vinaigrette, and served with iceberg lettuce, avocado salsa verde and limes

## SNAPSHOT

### CONCEPT

Señor Frog's

### PARENT COMPANY

Grupo Anderson, Cancun, Mexico

### UNITS

14

### 2004 SYSTEMWIDE SALES

\$36.5 million

### 2005 SYSTEMWIDE SALES

\$42 million  
(company estimate)

### AVERAGE UNIT VOLUME

\$5 million

### AVERAGE CHECK

\$12 to \$15 lunch,  
\$20 to \$25 dinner

### EXPANSION PLANS

2 in 2006

# Toeing the Party Line

*Señor Frog's brings its infamous party scene to the United States.*

## BY MAYA NORRIS

The party is just beginning for Señor Frog's in the United States. The Cancun, Mexico-based chain known for its yard glasses of beer and Shake Your Booty dance contests debuted in the United States this summer and is preparing to open two more stateside locations by next year.

Parent company Grupo Anderson introduced its flagship brand to the U.S. market after opening 13 units throughout Mexico, the Caribbean and Venezuela over the last 36 years. Señor Frog's rang up \$36.5 million in systemwide sales in 2004 with an average unit volume of \$5 million. It makes up 50 percent of sales for Grupo Anderson, which operates seven other concepts including El Shrimp Bucket, a casual seafood chain, and Glazz, an upscale Asian restaurant and lounge.

## Anything Goes

Grupo Anderson says Señor Frog's stands out from most restaurants in the United States because of its around-the-clock entertainment and "anything goes" attitude. The chain has live music, contests and unplanned events, such as staff encouraging customers to throw popcorn at each other or dance on top of the bar. Its theme parties have included a pajama party, where guests participated in pillow fights and swam in a pool filled with beer.

"Señor Frog's is not a restaurant or a bar. It's a full entertainment idea and concept. People are entertained from the minute they walk in to the minute they walk out," says Jorge Hinojosa, director of development for Grupo Anderson. "Everything about our place is all about sense of humor, and it's all about being unpredictable."

The tropical decor enhances the carefree attitude with thatched materials, bamboo, wood, and a palette of orange, yellow, red and green. The freestanding units include two bars, a stage and a patio.

Although Señor Frog's is proud of its party scene, the chain also takes pride in its menu. But it refuses to categorize it as Mexican despite offering the usual fajitas, enchiladas and quesadillas. "Señor Frog's is casual and approachable food with an authentic Mexican twist," Hinojosa asserts.

Popular selections include Chicken Wings, \$8.25, served with chipotle-blue cheese dressing; Aqua Tacos, \$8.25, a Mexican version of lettuce wraps with grilled chicken, cactus leaves, panela cheese, tomatoes and red onions tossed with cilantro vinaigrette, and served with iceberg lettuce, avocado salsa verde and limes; and Molcajete, \$18.95, a mortar filled with cactus, skirt steak, chicken, panela cheese, chorizo and avocado, and served with grilled green onions, salsa and tortillas.

## New Pads

The chain has already made its mark in the United States. Targeting high-traffic vacation spots, Señor Frog's opened an outpost in Myrtle Beach, S.C., in June and plans to open in Honolulu and Las Vegas by the end of 2006.

Because the U.S. locations have more tourists and fewer all-inclusive properties nearby, Grupo Anderson expects the stateside stores to post higher sales than the non-U.S. units. The company says the Myrtle Beach store is on track to ring up \$8 million in sales in its first 12 months of operation and predicts the Hawaii unit will generate \$12 million and the Vegas store will post \$20 million plus in their first year. **CL**





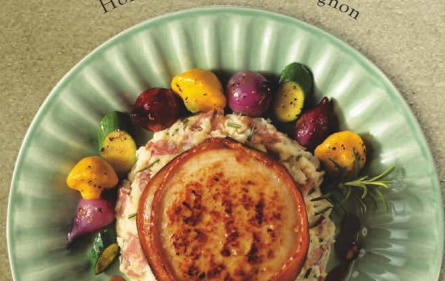
Peppered Feta Turkey Burger

# Give Beef THE BIRD.

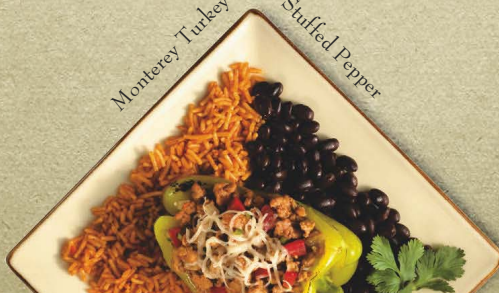
Well said. Today's customer wants variety, and throwing a fancy title, or a new kind of cheese on a hamburger is hardly distinct. That's why we're proud to introduce the Just Perfect™ Turkey Burger to our already versatile line of foodservice products. It's specially seasoned to ensure a taste even beef lovers will enjoy. And since we're talking taste, our proprietary process delivers high-quality, great-tasting turkey that's a perfect alternative to beef. So why not add Carolina Turkey to your menu? It, and our strong commitment to innovation, are sure to position your restaurant for future success. For more information call 800-523-4559 ext. 687.



Honey Pecan Turkey Mignon



Monterey Turkey  
Stuffed Pepper



Turkey Meatballs & Penne Piccata





# STATION

# Identification

*Firehouse Subs uses actual firefighters in a campaign aimed to make it a national player.*

**R**obin Sorensen is not the kind of guy who puts a lot of weight in testimonials. “Just because a football player is talking about it doesn’t mean I am going to buy a car from that dealer,” he says.

So it might seem odd that testimonials play a big part of the first concentrated television branding campaign for Firehouse Subs, the sandwich chain he and his brother, Chris, who are former firefighters, founded 11 years ago. In the new, black-and-white documentary-style ads, firefighters from Jacksonville and Orlando, Fla., talk about their profession, their relationships and their appetites. But they don’t mention Firehouse Subs.

“I thought if they talked about Firehouse, they would lose credibility,” Sorensen says.

Greenville, S.C.-based Erwin-Penland developed the idea for the campaign. Firehouse Subs hired the ad agency in January after it “outgrew” its previous local agen-

cies, which had created a few local spots, direct mail and other smaller-scale marketing efforts between 2001 and 2004. Now that the Sorensen brothers have their sights set on making their Jacksonville-based concept among the top five sub chains in the country, aiming for more than 350 units, the time was ripe for a comprehensive branding campaign.

Firehouse Subs will spend between \$3.5 million and \$4 million on advertising in 2005, most of which comes from a percentage franchisees pay into an ad fund.

### Personal Connections

The public service announcement-style campaign features actual firefighters—some of whom the Sorensens know from their days at the job—in unscripted ads, linking them to the one thing people associate with firemen more than Dalmatians: food. The spots use voice-overs and text to convey the Firehouse Subs brand message so the firefighters don’t have to.

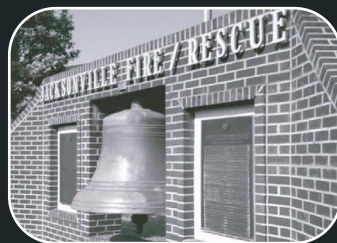
“We had been talking about our steamed

BY MARGARET LITTMAN

### “Jacksonville” Length: 30 seconds



1. Firefighter 1: You spend more time with the people at the fire station than you do your own family.



2. Firefighter 2: I am a second-generation firefighter. I grew up watching my dad do it.



3. Firefighter 3: They’re my brothers and my sisters. We’re all in this together.



4. Firefighter 4: Mealtime is a very important time in the course of the day of the firehouse, like it is at our house.

meat, but that's hard to talk about. It sounds moist. It is not flame broiled, which says what it is," Sorensen explains. "Erwin-Penland said we shouldn't talk about that. They said we should talk about what we own that nobody else does. That's the real story of real firemen."

When Erwin-Penland won the account, the authenticity of the Firehouse concept, including the Sorensens' relationships with firefighters in the chain's larger markets, jumped out as the most obvious point of difference between the concept and its competitors that also promote toasted bread and quality ingredients. In what Roger Beasley, vice president and director of strategic planning at Erwin-Penland, calls "selling trust," the campaign does not rely on limited-time offers or other standard QSR strategies.

Instead, the two 30-second TV spots, combined with five radio ads, billboards and direct mail, emphasize ideas rather than specifics. Intended to be humorous but also ring true, the ads feature firefighters referring to the meals they make one another while on duty in their fire stations, as well as the appetites they accrue on the job. A voice-over says things such as, "These guys aren't scared of anything. Except missing a meal," and, "After a day of fighting fires, don't expect them to reach for a smoothie." Such messages indirectly address Firehouse's quality and value without using explicit marketing language.

"Firefighters are the last American heroes. Politicians have blown it. Athletes have blown it. Firefighters are the only

ones who have not blown it. They will not tell you something if it is not true," says Andy Mendelsohn, executive creative director at Erwin-Penland. "The idea is, 'If a firefighter says it's good, it's good.'" That phrase became the ad's tagline.

### In the House

With an estimated \$150 million in sales for 2005, Firehouse Subs is still far smaller than competitors Quizno's and Subway. It has 192 restaurants in just 11 states; 150 units are franchised. Management, however, is optimistic about its growth as it expands up the East Coast from its traditional Southern markets. Firehouse has sold another 400 franchises.

The company also says its fire-station memorabilia appeals to 25- to 44-year-old males, who are heavy fast-food eaters. With a healthy \$7.50 average check, Firehouse sells more drinks and chips as a percentage of sales than its competitors, executives add.

Because the campaign is unscripted and features firefighters from the markets where the ads air, both Erwin-Penland and Firehouse feel it can remain fresh and effective as new spots are added.

The commercials began airing in four markets in June. While the chain can't quantify results yet, Sorensen says awareness of the brand has been heightened.

As for getting firefighters to participate in the ads, Sorensen says it has been easy. "Firemen are mostly hams, so they're willing to do it. It is no problem whatsoever," he says. "It is easy to get a fireman when you're in need." **CI**

## SNAPSHOT

### CONCEPT

Firehouse Subs

### HEADQUARTERS

Jacksonville, Fla.

### UNITS

192

### 2004

### SYSTEMWIDE SALES

\$100 million

### 2005

### SYSTEMWIDE SALES

\$150 million

(company estimate)

### AVERAGE

### UNIT VOLUME

\$615,000

### AVERAGE CHECK

\$7.50

### AD BUDGET

\$3.5 million

to \$4 million

(company estimate)

### AD AGENCY

Erwin-Penland,

Greenville, S.C.

### EXPANSION PLANS

40 in 2005,

90 in 2006

THESE GUYS AREN'T SCARED OF ANYTHING

EXCEPT MISSING A MEAL



**FIREHOUSE  
SUBS**

5. Text: These guys aren't scared of anything.

6. Except missing a meal.

7. Firefighter 5: The camaraderie around the dinner table is what the firefighters are all about.

8. Nobody knows good food like a firefighter. Voice-over: If a firefighter says it's good, it's good.





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# WARMING *trend*

Wood, earth tones  
and low lighting  
give remodeled  
Denny's stores  
a homey look.

BY LISA BERTAGNOLI



Square booths are easier  
for customers to get in and  
out of than their rounded  
predecessors.







Shortly after she accepted a job at a Denny's restaurant in Carol Stream, Ill., Amber Domanski got an unexpected vacation: The location was closing for a week to be remodeled.

When Domanski returned to the store after the remodel, she scarcely recognized it. "It was so different," says Domanski, a unit aid at the restaurant.

The toy machine and phone booths in the cramped entryway were gone. So were the long, diner-style counter, the metal chairs in the dining room and the servers' bright bowling shirts. The lighting was softer, the carpet dark and sedate, and the chairs, solid and wooden. Booths sported dark vinyl backs, red-and-yellow swirled pendant lights hung above tables, and the servers wore celery-green polo shirts made of a soft, brushed fabric.

Back in 2004, Denny's tested the new look in six Chicago-area locations, including the Carol Stream store, because the Chicago market hadn't been remodeled in nine years. "It was a good opportunity to make comparisons between the previous scheme and the new scheme," explains Carol Davis, senior director of architecture and engineering for the Spartanburg, S.C.-based family-dining chain.

### Less Is More

The previous remodel, launched in 1995, featured a bright diner-style look, complete with neon lighting, frosted glass and a counter. Denny's remodels its stores every seven years, and with this go-round, a warmer look was in order. "We weren't getting as high ratings as we wanted," Davis says. "We were ready for a new look."

Above all, Denny's wanted an interior that matches its Declaration of Hospitality, a document hanging in the lobby of all 1,584 restaurants (548 company, 1,036 franchised) that details the chain's promises to its guests. "It emphasizes our commitment to great service," says Debbie Atkins, Denny's public relations director.

Late in 2003, the company invited several design firms to submit ideas for the redesign. Vision 3 Architects of Baltimore emerged the winner with an approach that combined good design and good value, Davis says.

Denny's asked the firm to spend no more than \$50,000 to \$100,000 per store more than the previous remodel had cost,

### SNAPSHOT

#### CONCEPT

Denny's

#### LOCATION

Carol Stream, Ill.

#### OPENING DAY

March 22, 2004

#### DESIGNER

Vision 3 Architects, Baltimore

#### AREA

5,665 square feet

#### SEATS

184

#### AVERAGE CHECK

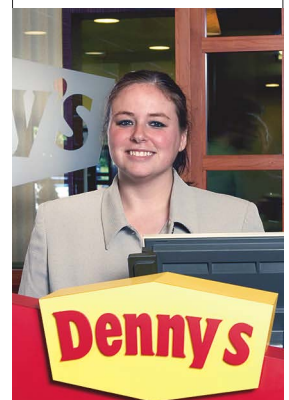
\$7.20

#### UNIT VOLUME

\$1.62 million  
(company estimate)

#### EXPANSION PLANS

80 remodeled company and 100 remodeled franchise locations, plus 3 to 5 new units in 2006



Brown vinyl booth backings (top c.) last longer and are easier to clean in a 24/7 setting.

No more toy machine or phone booths: Denny's expanded entry (top r.) "creates a sense of pause," says designer Bill Gray.

A millwork cash-register counter (r.) combines with a hostess stand to make guests feel welcome.






# RESTAURANT



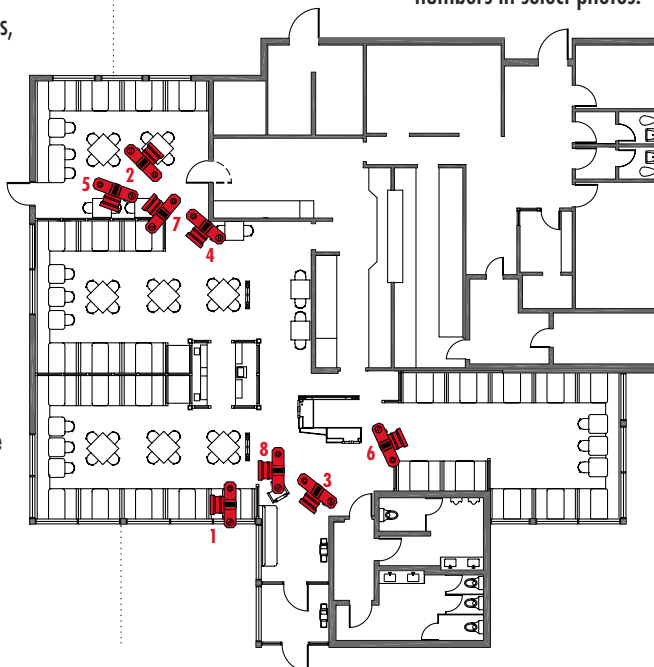
(Clockwise from top l.)  
Wooden chairs lend Denny's dining areas a homier feeling.

Frosted glass dividers, a remnant from the old design, "are fine," says designer Bill Gray.

A row of booths replaces a diner-style counter in the smoking area; vintage Denny's advertisements and graphics give diners a sense of the chain's history.

**KEY**  
 Direction of shot  
 Shot No.  
 Position of camera

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



*Previous lighting at Denny's was "operating-room bright," says designer Bill Gray.*

"and keep it to the low end of that," says Vision 3 Principal Bill Gray. "And we accomplished that."

Gray started by scrapping most of the diner elements. He created a neutral palette of wood finishes, dark flooring, dark vinyl booth covering and region-specific art, all meant to turn the bright space into "an all-American family-dining concept, not a theme concept," he explains.

Gray chose many of the finishes to hold up under Denny's round-the-clock hours. Vinyl booth backs are more durable than upholstery. The carpet is a higher-grade commercial product than the previous carpet, and the sage-green and striped wall coverings are easy to clean. Gray replaced tile when it was hard to clean; otherwise, he left flooring as it was.

He also left alone the existing floor plan of separate dining areas divided by wood-and-glass partitions. He did, however, refashion the entry area into a bigger space, complete with a waiting bench, a millwork hostess stand and millwork cash counter, both with bright yellow-and-red Denny's logos. Those elements create "a sense of arrival," Gray says.



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Moons Over My Hammy: ham and scrambled egg sandwich with Swiss and American cheeses on grilled sourdough, served with hash browns or french fries, \$6.59

#### BURGERS AND SANDWICHES

The Super Bird: thinly sliced turkey breast with melted Swiss cheese, bacon strips and tomato on grilled sourdough, \$6.59

#### DINNERS

Steakhouse Strip & Shrimp: 8-ounce strip steak and six golden fried shrimp, \$13.79

*Denny's diner decor was themey; the new look is all-American family restaurant.*

#### The Green Light

The designer devised three levels of the prototype for Denny's; the chain chose the middle, which includes an exterior package of new paint, wooden benches and wood planters. By the end of this year, Denny's will have remodeled about 100 company stores and a handful of franchised stores; next year's remodeling schedule calls for 80 company and 100 franchised stores.

Denny's plans a few adjustments to the prototype as it rolls out, for both value engineering and ease of operations, Davis says. Outside awnings, part of Gray's original design, cost too much to install at every location. Difficult-to-clean floor tile will be replaced with a more easily maintained product. The Declaration of Hospitality itself will get a new look with more photos of customers, according to Atkins.

(Clockwise from top l.) Posters and photos with local appeal replace generic framed prints from Denny's old look.

Denny's Chef Salad, \$7.09, tops greens and veggies with ample portions of turkey and ham.

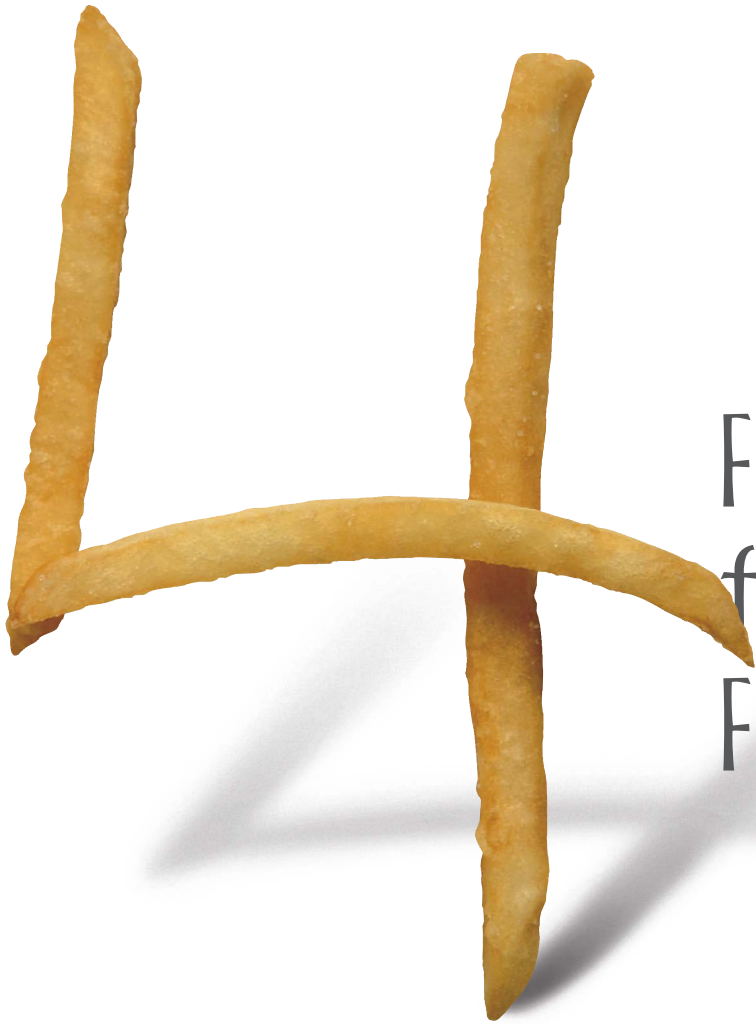
A millwork screen separates the expanded entryway from the dining area.

Overall, the new look is on the right track, Davis says. Check averages and unit volumes at the redesigned stores are higher than the chain expected, though the chain won't give specifics. According to Davis, customers are giving the new look favorable reviews, as are staffers. The new uniforms alone "have made a huge difference," she says.

And the remodel is contributing to a rosier financial picture. For the third quarter of 2005, same-store sales were up 4.1 percent at company stores and 6.1 percent at franchised restaurants. Average unit volumes had increased as well, to \$1.62 million from \$1.58 million at company restaurants and to \$1.38 million from \$1.33 million at franchised stores.

"The remodel is part of the big picture," Atkins says. **CL**





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*Bugaboo Creek Steak House hopes Philip Butler's value-priced lodge comforts raise sales and traffic.*

# Mountain

# ELEVATION

BY MONICA ROGERS

Portrait by Deborah Whitlaw Jewelllyn



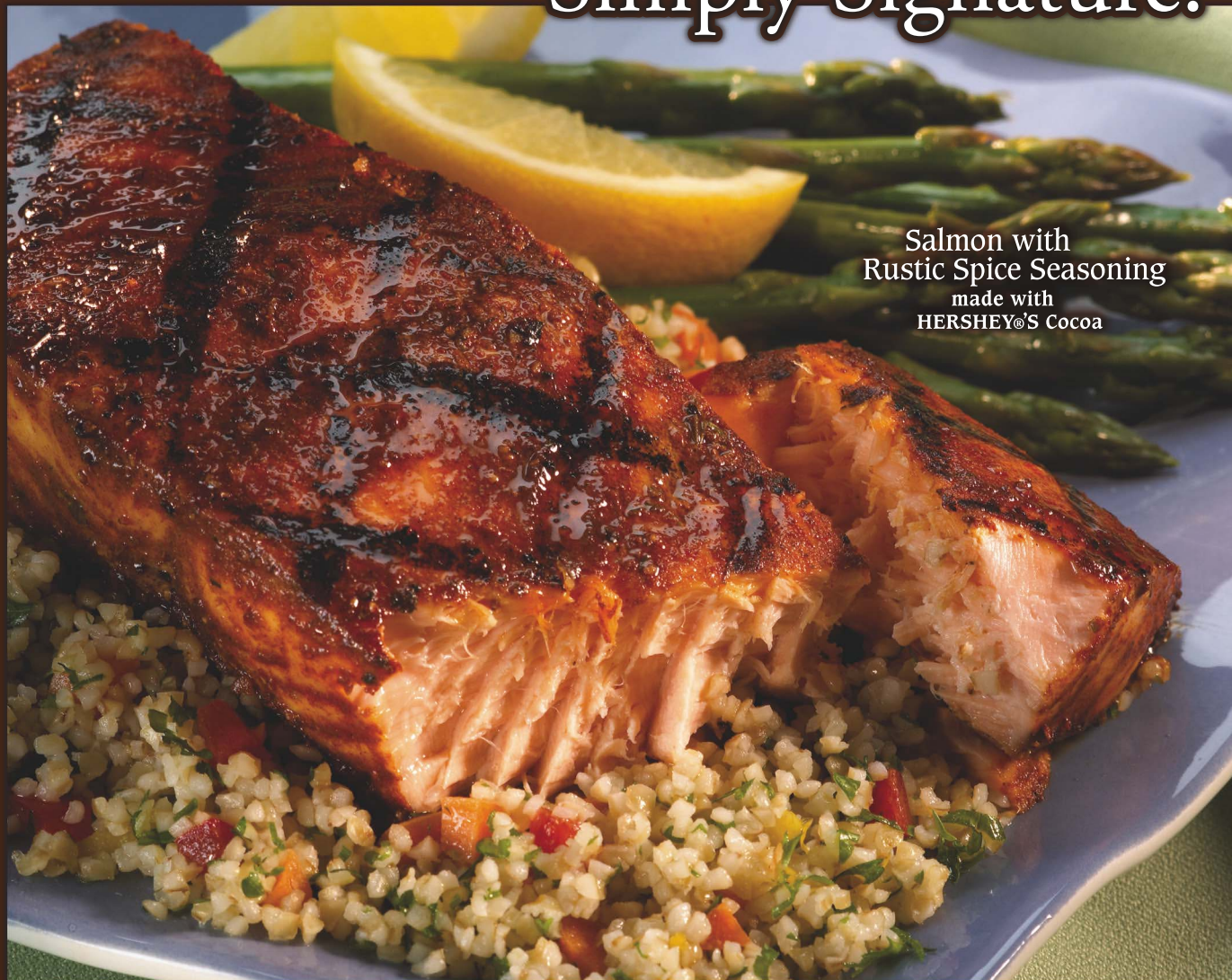
**I**t's Aug. 29, 1916, and three hours into his climb up a steep, granite slope in Southeast British Columbia, Canada, famed mountaineer Conrad Kain faces a "bugaboo," mining-speak for "dead end": With easier paths blocked, the only way forward is directly up the sheer rock face. Kain makes it. The area is dubbed the Bugaboo mountain region, and Kain's "will over wilderness" fortitude sets a standard.

Ninety years later, leadership at Rare Hospitality International's Bugaboo Creek Steak House faces its own uphill climb: how to broaden its customer base, perk up flat sales and drive frequency in the face of an increasingly saturated midscale steakhouse segment. The current approach? Broaden the menu with

**Fireside Sirloin Skillet** Tips with grilled onions, sautéed mushrooms, smashed potatoes and steamed vegetables, \$14.99 dinner, \$9.99 lunch, was a best-selling 2005 seasonal special.



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<sup>1</sup> IRI, Total US Food Dollar Share, 52-Weeks Ending 5/15/05  
<sup>2</sup> Millward Brown Tracking Study, August 2004



*Bugaboo Creek plans to add more radio spots and workplace promotions to support its quarterly seasonal special menus.*

more emphasis on mountain-style comfort foods and value pricing.

Philip Butler, who came on board in July as Bugaboo Creek's corporate chef and director of culinary, has set the pace with "Lodge Comfort" menu items that will launch in October.

"My challenge is to create with foods that guests are comfortable with, but to present them in a rugged, rustic, mountain style that's really true to Bugaboo," says Butler, who comes to the 30-unit chain with diverse industry experience. Butler conceptualized, owned and operated Italian-, Latin- and Asian-themed independent concepts; shaped menus for Sky Chefs in Dallas when food was a favored airline amenity; and broadened prepared-food offerings for 7-Eleven. "But the strength I bring to this job is my approach to how plates are put together and presented," he says.

### **Rustic Comfort**

Take the new meatloaf on the core menu, for example. "Everyone's comfortable with meatloaf, so I put some thought into how we could give that a Bugaboo spin," Butler says. "We already had a killer meatloaf recipe with big chunks of diced onion, carrots and celery mixed into the meat to give it a rustic flair. So I kept that core recipe, but updated it."

He shaped the meat into a smaller loaf, which slices up better for presentation. Instead of a red sauce, Butler switched to Bugaboo Creek's house barbecue sauce: "A more adventuresome taste, which fit our niche better," he says. The finished plate features four slices of meatloaf (three at lunch) with melted cheddar cheese, bacon crumbles and fried red-onion strings over a



### **MENU SAMPLER**

#### **STARTER**

Crater Lake Seafood Dip:  
Monterey Jack cheese dip with creamy white-wine sauce topped with shrimp, scallops, tomatoes and chives, and served with French bread, \$7.99

#### **BURGER AVALANCHE**

Moosebreath Burger:  
a half-pound of fresh ground beef topped with garlic-sauteed mushrooms and cheddar cheese, \$7.29

#### **LIGHT MOUNTAIN AIR SALAD**

Snowbird Chicken Salad:  
hand-breaded chicken tenders atop mixed greens with diced tomatoes, cheese, crumbled

smoked bacon, eggs, cucumbers and croutons, \$7.99 lunch, \$9.49 dinner

#### **BUGABOO STEAK**

Lodge Filet, 9 ounce, served with Honey Mountain bread and choice of salad and side, \$18.49

#### **FLY FISHERMAN'S FAVORITES**

Grilled Fresh Salmon,  
marinated with pineapple, soy, ginger and bourbon, served with smashed potatoes and steamed vegetables, \$14.49

Marrying the traditional cobb with a standard chopped salad, Butler created his Chicken Cobb Salad, which will debut on the core menu this October.

bed of smashed potatoes with customer's choice of side dish, \$12.99 dinner, \$8.99 lunch. Butler shingles the meat over the potatoes and zig-zags the sauce to further enhance presentation.

Kain's Chicken Cobb Salad, \$9.99 dinner, \$7.99 lunch, also joins the core menu this month. Hybridizing two classics, the traditional cobb and chopped salad, Butler tosses mesclun with blackened diced chicken, smoked bacon, blue-cheese crumbles, tomatoes, cucumbers, chopped egg, fried onion strings and Zinfandel vinaigrette.

Butler rounds out October's Lodge Comforts launch with three seasonal specials





In search of nonchocolate comforts, chef Philip Butler experimented with apples for his new Golden Harvest Apple Fritter Sundae. "Warm, comforting, lodge-like—apple fritters fit the bill," he says.

Rough-chopped vegetables add heartiness and barbecue sauce brings zest to Bugaboo Creek's meatloaf.

*Red meat still sells best: the Lodge Filet, Smoked Baby Back Ribs and Fireside Sirloin Skillet Tips lead.*

**SNAPSHOT**

**CONCEPT**

Bugaboo Creek Steak House

**PARENT COMPANY**

Rare Hospitality International Inc., Atlanta

**UNITS**

30

**2004 SYSTEMWIDE SALES**

\$98 million

**2005 SYSTEMWIDE SALES**

\$110 million (company estimate)

**AVERAGE UNIT VOLUME**

\$3.6 million to \$3.7 million

**AVERAGE CHECK**

\$16.50

**EXPANSION PLANS**

3 in 2005, 3 in 2006

that will be available through Dec. 4: Smothered Shrimp and Sausage Dip, \$7.99; Burgundy Bleu 11 oz. New York Strip, \$17.99; and Golden Harvest Apple Fritter Sundae, \$5.99.

For the dip, Butler steered away from heavy use of garlic but liked the spice level and dense texture of andouille sausage with the shrimp. "I added creaminess with Jack cheese and selected a tortilla chip that would stay crisp through service and offered the added visual interest of tri-color shades," he says. Initial versions of the dip had higher spice levels. "You don't get the perfect balance right away," he admits. "I started a little too spicy and tweaked the recipe to tone it down from there."

With his Burgundy Bleu entree, Butler specified New York strip steak for its value and flavor. "I love New York strip. It offers a great price, good value and has great flavor to match the Three Blind Moose Merlot we're featuring with the dish," he says. Adorned with blue-cheese demi-glace, fire-roasted red peppers, smoked bacon and crumbled blue cheese, the steak "has just the right balance of earthy tones and creaminess," Butler explains.

**Lower Checks, Higher Traffic**

Rather than increase prices with new launches, all of these dishes are priced in the midrange of existing menu options. The company hopes that a reduced average check and greater value offerings will drive more traffic into the stores. Senior Director

of Marketing Kim Jensen-Pitts won't release exact numbers, but she says, "When we featured sirloin tips, we saw a strong increase in second-quarter traffic. We expect to see the same thing happen with the meatloaf launch."

Bugaboo Creek's demographic is heavily family oriented, targeting customers 25 to 54 with children. However, because of the chain's \$16.50 average check, many families consider the restaurant to be a special-occasion place.

"If Bugaboo Creek is to succeed in getting families to come in more frequently, the price point will have to come down," says restaurant analyst Hil Davis of SunTrust Robinson Humphrey in Atlanta. But Davis thinks Bugaboo Creek needs to go beyond food to drive traffic, adjusting the atmosphere to make it more inviting to customers without children. "They've gotta tone the kid ambience down a bit to appeal to other guests," he says.

Bugaboo Creek believes Butler's culinary comforts have the power to coax new customers of all sorts, without changing the decor. "We believe the lodge artifacts, even the animatronics [squirrels, raccoons, buffalo and moose that move and talk], enhance, rather than detract from, the overall ambience," Jensen-Pitts says. "Marketing to the business crowd is something we're just beginning to explore." The company will launch a test program Oct. 17 promoting lunch to consumers where they work.

Enhancing Bugaboo's kids program is





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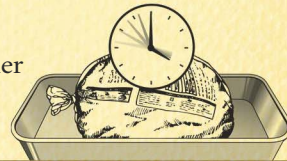
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Andouille sausage adds spice and texture to the new Smothered Shrimp and Sausage Dip, a blend of white wine, tomato sauce and Jack cheese topped with sour cream and chives, and served with tri-color dipping chips.

*“My challenge is to create foods that guests are comfortable with, but to present them in a rugged, rustic, mountain style.”*

—Philip Butler, corporate chef and director of culinary

also on the agenda. “We have a good kids menu but think we can do a lot more with it,” Butler says. As a first foray into this realm, Bugaboo Creek did a Mini-Mountaineer burger promotion in conjunction with the Fireside Sirloin Skillet Tips launch in April,

which the company says was well-received. “We skewered two mini burgers on a plastic pick,” he says. “The presentation was fun, and the kids loved it. Look for more kid-food promotions to come.”

And Bugaboo Creek is sticking with the quarterly food-promotion strategy it launched two years ago as it moves into 2006. The company plans to introduce four promotions that will each last eight to 10 weeks and feature two to four new menu items.

While it's too soon to share specifics, Bugaboo Creek will be looking at opportunities to enhance lunch sandwiches and burgers with a more upscale appearance.

### Formal Processes

That task falls to Bugaboo Creek's Calendar Committee. Formed in June, the group is comprised of operations, training, marketing, research and development, and purchasing personnel and meets monthly to make the menu-development process more collaborative.

“The idea is that getting everyone on board sooner, discussing seasonal trends, potential items and LTOs, will help us avoid working so close to market,” Jensen-Pitts says. “Our goal is to get things ready 16 months out, rather than four or five.”

Bugaboo Creek also wants to formalize its testing procedures. Right now, it's a haphazard, “some we do, some we don't” testing approach, says Butler. Meatloaf, for example, tested six months in advance of its launch, while the Cobb salad tested just weeks before launch. “We want to improve on this process, timing wise, testing things far enough ahead of time so it makes sense,” he explains. “We don't want guests testing a cold dish in the dead of winter or hot comfort-food entree in the middle of the summer.”

Currently, customers fill out forms to indicate their opinion of overall quality, taste and value of test items. But cultivating closer relationships with its loyal users, Bugaboo Creek is launching an e-mail club, The Creek Club, and hopes club communiqués will reflect customer opinions and provide a forum for guests to share ideas.

Feeding the new-idea pipeline from within the ranks, Butler also hosts a biweekly conference call with all kitchen managers. “It's meant to be an open forum for ideas,” he says. “I'm a big believer in that.”

Bugaboo Creek also emphasizes culinary training. As Butler develops new menu items, he trains six culinary captains in the intricacies of each dish. They in turn pass the skills on to the kitchen managers in each region. Between training sessions, a culinary operations manager travels to monitor units for consistency and quality control.

Moving ahead, Butler is looking forward to cultivating closer relationships with both his culinary team and his vendors as he develops new ideas to fit the Bugaboo Creek mountain-comforts motif.

“It's a lot of fun to think about the possibilities,” he says. “Everything about the concept is warm and rustic, in color and feel. There's nothing sparse about it.” **CL**



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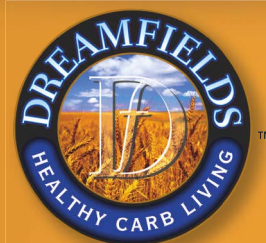
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**SNAPSHOT**

**COMPANY**

McCormick & Schmick's Seafood Restaurants

**HEADQUARTERS**

Portland, Ore.

**UNITS**

57

**2005 REVENUES**

\$273.3 million\*

**AVERAGE UNIT VOLUME**

\$5.2 million (in third year)

**AVERAGE CHECK**

\$14 lunch, \$45 dinner

**EXPANSION PLANS**

7 in '05, 8 in '06

\* McAdams Wright Ragan estimate

# BIG FISH, Small Pond

Big fish: Lacking competition nationally, President Doug Schmick (l.) and CEO Saed Mohseni favor expanding McCormick & Schmick's prudently.





*McCormick & Schmick's exploits the lack of national players in its competitive pool.*

### BY DAVID FARKAS

**I**t was a combination of Irish hospitality and German work ethic," says Douglas Schmick, explaining the success of McCormick & Schmick's Seafood Restaurants. During a recent lunch with CEO Saed Mohseni in Portland, Ore., the 57-year-old co-founder and president also shares how he launched his career at the company, which is headquartered here, 33 years ago.

"I started as a management trainee a year out of college. Bill [McCormick] had just purchased Jake's Famous Crawfish. The two of us really clicked, and I was fortunate to be made a partner," he explains, referring to the celebrated Portland restaurant McCormick acquired in 1972.

Fortunate indeed. By 1994 the two sold a majority interest in their company—then 14 restaurants—to Castle Harlan, giving them financial independence and allowing them to share the spoils with their senior staff. Schmick and his team used the new owners' capital to open more of the upscale restaurants in markets like Washington, D.C., now the second largest market behind Portland.

The company, expected to ring up \$272 million in sales this year, was sold two more times—to Avado Brands in 1997 and then to Bruckman, Rosser, Sherrill & Co. in 2001—before going public on July 20, 2004. The IPO, priced at \$12 a share, raised \$65.1 million, the bulk of which was used to repay an existing credit facility and to leverage another one good for \$50 million. The company has drawn about \$12 million against it so far.

The capital, in combination with cash flow, has allowed McCormick & Schmick's to ramp up expansion in an effort to be the first chain on a national level to dominate the fresh seafood niche.

### Top Talent

The chain will have to pursue its growth plans without McCormick, 65, who was nominated by President George W. Bush to serve as ambassador to New Zealand in July. Schmick, on the other hand, remains involved in the company, looking for sites and designing restaurants. But it is the 43-year-old Mohseni, who was born in Iran, that manages day-to-day operations. Thus far Wall Street has reacted favorably to his talent for managing growth, increasing margins and producing consistent comparable sales.

Mohseni has already opened five of an announced seven restaurants this year—the same number the company opened in '04. Eight units are scheduled for '06. Comp sales for the second quarter climbed 3.3 percent and are expected to remain in the 2 percent to 3 percent range in '05.

The results have led to a "buy" rating from the seven analysts who follow MSSR and report their findings to First Call. Their consensus estimate for per share earnings for '05 is 72 cents, or 22 percent above last year's 56 cents. They expect long-term EPS growth of 20 percent and a price-earnings multiple of 20 times in '06. Company guidance ranges from 70 cents to 72 cents. The stock, which was changing hands for \$18 per share





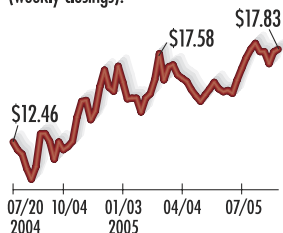
## The McCormick & Schmick's in affluent Reston, Va., rang up \$8 million last year.

Sales volumes at new McCormick & Schmick's Seafood Restaurants build slowly, beginning at \$2.4 million the first year and climbing to an average \$5.4 million in year three.

McCormick & Schmick's restaurants vary in size from 6,000 square feet to 14,000 square feet. Investment costs for the 8,000-square-foot prototype run \$2.4 million excluding pre-opening costs of about \$300,000.

### Taking Stock

Though it saw some hiccups after its IPO in July 2004, McCormick & Schmick's has watched share price trend upward (weekly closings).



in mid-September, could reach \$23 within the next 12 months, analysts predict.

The optimistic expectations are being fueled by the current growth model and positioning. Mohseni claims there isn't another national seafood concept that competes directly with McCormick & Schmick's, which now operates 57 restaurants in 23 markets. "On a national level, there's no one," he says. "So we ultimately compete with the best local seafood restaurants and great regional companies like Legal Sea Foods on the East Coast and King's on the West Coast."

Oceanaire Seafood Room and Bonefish Grill, two growing seafood chains with national ambitions, are not deemed competitors, at least based on price. Oceanaire founder and Chairman Phil Roberts says his concept, which has a \$55 check average, attracts a different customer. Bonefish's \$26 check is well below McCormick & Schmick's \$39.

"We are at the upper end of moderate in terms of price points," Schmick explains. "You've got people at the higher end and people at the casual end, and we're somewhere in between."

Seafood has always been a tough sell. Quality and freshness are big concerns, even more so since Gulf waters, an important source for shellfish, were polluted in the aftermath of Hurricane Katrina. Between 2003 and 2004, when the full-service restaurant category grew sales by

6.8 percent, sales at full-service seafood restaurants climbed merely 3.3 percent, according to Technomic Inc., a market research firm in Chicago. Revenues for the same period rose 18 percent at McCormick & Schmick's.

The restaurants address the freshness issue by changing seafood offerings twice daily and posting a Fresh List at the top of the menu. On Labor Day, for instance, the

lunch menu at the downtown Portland unit included marlin from Kona, Hawaii; ling cod from Newport, Ore.; and monkfish from Boston. Mohseni says about 10 percent of the menu would change by dinner.

### Nothing Fishy

To accomplish that, executive chefs in each unit buy seafood from approved vendors based on what is selling in their markets. Orders, placed the day before, arrive by 6:30 a.m. Core items such as oysters on the half shell and salmon never rotate.

"We try not to tell [the chefs], 'You need to sell this fish today,'" Schmick says. Still, he says there are parameters for what the company will pay for a given species.

The stringent process, which has been in place almost since the company's founding, helps to maintain the 29.1 percent food cost, a figure that recently won applause from Paul Westra of SG Cowen & Co. In an Aug. 3 note to investors, the veteran analyst stressed that the second quarter's .6 percent gain in store margins to 15.5 percent resulted from a .4 percent drop in food costs and aided the company's strong 21 cents EPS showing, beating Westra's estimate by 4 cents.

Investors are also counting on management to ramp up development prudently. And so far management has, opening the bulk of new outposts in existing markets and alleviating brand-identity problems.

Mohseni recently hired Portland publicist Tori Harms to create a brand campaign tailored for McCormick & Schmick's hometown and largest market. The goal, he says, is to shift the spotlight from financial performance, which has been the focus of local



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*“We’re funded through the number of restaurants we want to open right now.”*

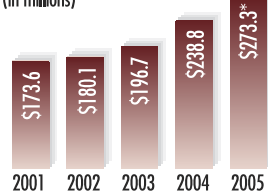
—CEO Saed Mohseni

It's no accident that elaborate bars are put at the entrance of McCormick & Schmick's Seafood Restaurants. Sales from beer, wine and spirits account for 30 percent of sales.

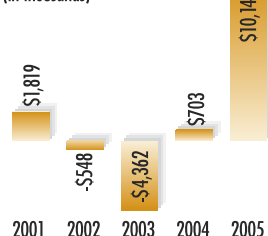
Adding several new species of fish twice a day to McCormick & Schmick's long menu helps keep food costs below 30 percent.

## McCormick & Schmick's Above Sea Level

Revenue  
(in millions)



Profit  
(in thousands)



Source: company reports;  
\*McAdams Wright Ragan estimates

coverage since the IPO, to the dining experience. Public relations is the chief tactic for building business when new units open. The company retains 17 firms throughout the country.

Historically, McCormick & Schmick's stayed downtown, capturing lunch (45 percent of sales) and dinner customers from hotels, office buildings, and sports and entertainment venues. When business dried up after 9/11, Schmick and Mohseni devised a second real-estate profile: affluent suburbs. Recalls Schmick: “We felt a little overweighted in the downtown markets and overdependent on the business traveler. And so by going into the suburbs, it gave us diversity and ability to continue to expand.”

The suburban learning curve was short, as luck would have it, because the company had long operated a restaurant in the Portland suburb of Beaverton called McCormick's Fish House & Bar. “We always knew the [suburban] concept would work, but we had never focused on it,” Mohseni says.

When the company did, the results were spectacular. The branch in affluent Reston, Va., a 20-minute drive from the nation's capital, rang up \$8 million last year. According to officials, units post \$5.2 million on average after three years. In November, a McCormick & Schmick's will open in Bellevue, Wash., a Seattle suburb with an average household income of \$87,525.

New units have been performing better than old ones, a testament to the company's strategy of finding a customer base and then opening a convenient restaurant. It

has allowed McCormick & Schmick's, along with a budding second concept, M&S Grill, to take advantage of what used to be called nontraditional locations. Over the years, management has opened in marinas, hotels, malls and landmark buildings such as Boston's historic Faneuil Hall Market Place.

## Grab and Go

Conversions also appeal to Mohseni. He paid \$5.3 million in January '04 for three-unit Angelo & Maxi's, quickly converting two of the restaurants to McCormick & Schmick's and, eight months later, the third to M&S Grill. The grill concept, which features steaks, is a real-estate ploy that protects the larger units from local rivals.

“This is the type of company that will always take advantage of those kind of opportunities,” Mohseni told investors at a meeting in San Francisco on Sept. 13.

Opportunity is what buyout groups spotted in 1994 when Castle Harlan—and later Avado and Bruckman, Rosser, Sherrill—bought controlling interest in McCormick & Schmick's. The founders, however, remained in charge of operations, Schmick says, because they projected a conservative balance sheet. “We never blue-skied anyone,” Schmick insists. “As long as you're meeting everyone's expectation, no one is forcing you to go from butter to margarine.”

Today, a solid balance sheet allows the company to self-fund its growth while still having access to a line of credit. To date, \$38 million remains on a year-old \$50 million revolver. If things remain the same—cost of sales 29.4 percent, comp sales growth 2 percent to 3 percent, and unit growth 13 percent to 15 percent—Mohseni believes the chain will grow to somewhere between 150 and 200 restaurants in 32 markets by 2007.

Investors meanwhile see dollar signs popping up, particularly with restaurant-level cash-on-cash returns topping 30 percent on a noncapitalized basis and unit volumes of \$5.4 million or more in new restaurants. Declares Nicole Miller of Think Equity: “They're getting to the point where they could stamp [restaurants] out.”

That does sound a lot like a German work ethic. **CL**





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## MULTICONCEPT OPERATOR

BY MARGARET LITTMAN

**F**ormer Boise residents, or even travelers who haven't been through Boise Airport (BOI) in a while, are shocked when they see the changes over the last five years. In the old days, the airport was so small you could run from your parking spot out front to the gate, shout at a flight attendant to hold the door and still make your plane.

But after a \$14.4 million overhaul, the airport now has a parking garage, three concourses, lines at security, and several outposts of Moxie Java, a beloved local coffee shop, a Maui Tacos unit, a Hyde Park Market and Deli, and a pizzeria.

Passengers stuck at BOI during a long layover, or even just those who want to take a lunch on their flight, have William C. Anton and his wife, Patricia Miller Anton, to thank for the new dining options at their disposal. He is chairman and founder of Anton Airfood Inc.; she serves as president and CEO of the Washington, D.C.-based firm, which operates 151 restaurants in 20 U.S. airports.



Concepts like Anthony's (pictured) and Gallagher's help Anton Airfood create a unique atmosphere for each airport: No one will mistake the Seattle airport for the Newark airport.

# Ground

# Control

*Anton Airfood uses a mix of original concepts, local brands and national franchises to upgrade airport dining.*

For the BOI project, as they do before they bid on any new airport contract, the Antons spent an extraordinary amount of time researching the local market before submitting a proposal. They spent three-and-a-half years learning the ins and outs of the Boise dining scene, determining which dishes and brands were crucial to that market.

"Depending on the market, we may carry five or six kinds of barbecue. In Rhode Island you have to have coffee milk. When you do your homework, you know the cultural aspects that are important to the people making the decision [about to whom to award the contract]," Patricia Anton says.

"They were among the first to take that much time upfront and include recognizable brands as part of their proposal. They kind of pioneered the aspects that changed the industry from the \$7 hot dog," says industry analyst Pauline Ambrust of Palm Beach Gardens, Fla.-based Ambrust Aviation Group.

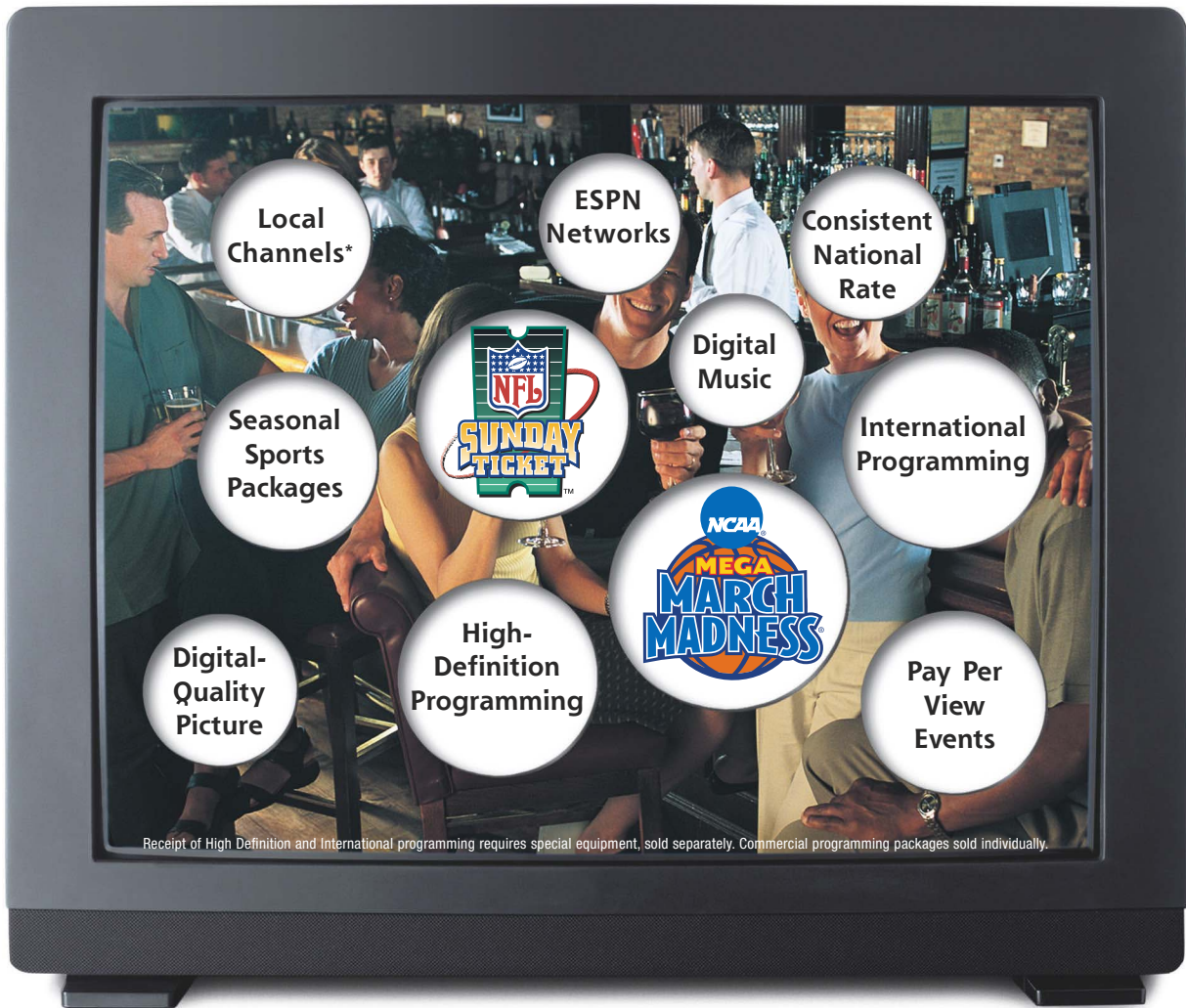
### Taking Off

Being pioneers was not their intention. In 1989 the Antons—who were not then yet married—owned a nightclub and a fine-



William and Patricia Anton are the powerhouse couple that has helped airport food take flight.





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Gallagher's Steak House is the kind of white-tablecloth concept Anton Airfood expects to continue to do well in airports, as people have more time to spend in terminals after passing through security.

*Anton Airfood's revenue per passenger is between \$3 and \$4; industry average is \$2.61.*

### SNAPSHOT

#### OPERATOR

Anton Airfood Inc.

#### HEADQUARTERS

Washington, D.C.

#### UNITS

151 restaurants  
in 20 airports

#### 2004

#### SYSTEMWIDE SALES

\$98.7 million

#### 2005

#### SYSTEMWIDE SALES

\$126 million  
(company estimate)

#### REVENUE

#### PER PASSENGER

\$3 to \$4

#### EXPANSION PLANS

\$200 million sales  
by 2008; bidding  
on Nashville  
International  
Airport in 2006

dining restaurant in Washington, D.C. Over the years the club had booked such names as Mel Torme and Kool and the Gang, and the restaurant, called Anton's, was the toast of Capitol Hill. Despite their successes, business was competitive. So when they were offered a deal to open a second restaurant at what was then Washington's National Airport, they grabbed it.

"I had the misguided idea that we could promote the downtown restaurant in the airport," William Anton says.

That didn't happen: Most people who ate in the airport were passing through and not visiting the city. But the couple soon experienced the law of unintended consequences. The National Airport Anton's outlet was less than 2,000 square feet and had a fairly limited menu, but in an era when most airports were serving "cold hot dogs and warm beer," it stood out. It was immediately profitable, generating \$1.4 million in sales in its first year.

"From the very beginning, it was a slot machine," William Anton says.

By 1991 they closed both the downtown restaurant and the nightclub. Although they each brought in \$2.5 million in revenues, they weren't profitable. The Antons opted instead to open five more Anton's restaurants in Washington National and one in LaGuardia because airport foodservice was profitable from the beginning.

Anton Airfood easily won those early contracts, awarded by airport authorities simply looking to improve their foodser-

vice offerings. However, over the years, the process became more competitive, often requiring a long bid process such as the one that netted the contract at BOI. So the company adapted by bringing appropriate branded offerings to airports and helping foodservice fit larger transportation and city-planning objectives.

#### Changing Planes

Part of the Antons' success can be attributed to being in the right place at the right time, and part to their ability to navigate their way through an industry littered with even more barriers to entry than traditional foodservice.

Each airport deal is different. In many cases, a board of commissioners evaluates proposals for companies to come in and manage all retail foodservice. Once a contract is awarded, the operator makes the capital investment in the new units—anywhere from \$3 million to \$20 million. Because the airport authority owns the physical space, the operator pays it a percentage of sales ranging from 8 percent to 20 percent for a contract of five to 15 years. That structure made it difficult in early years for Anton Airfood to get traditional financing because the existing units could not be used as collateral.

Anton Airfood refuses to pay 20 percent of sales to the airport authority. Yet it has won contracts from competitors offering such numbers because the company's revenue per enplaned passenger, the figure



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### AP NEWS

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sales increased

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age) into the  
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inner cup.  
ay to enjoy a  
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*Unique airport issues: small kitchens and employee background checks.*

**Anthony's is a favorite of Seattle residents and a favorite in the Anton Airfood portfolio. Founder and Chairman William Anton predicts it will bring in \$10 million in sales this year.**

airport restaurants use rather than average unit volume, is above the industry average of \$2.61: between \$3 and \$4. (Unit volume varies dramatically, because Anton's concepts are varied. Anthony's Seafood in Seattle, which brings in \$29,500 daily, is one of the top performers.)

"Others might bid with 15 percent of revenues, and we'll bid 12 percent, but our higher revenue per enplaned passenger gives them the higher gross," William Anton explains. Over the years, the company has only lost three contracts for which it has bid and has opted not to bid on a similar number.

Analyst Ambrust says Anton Airfood yields higher revenues per passenger because of its extensive city research. For the past nine years, Anton has won industry awards Ambrust Aviation Group issues, including best overall operator and best customer service, beating out better-known names. Ambrust estimates that there are just five national players in airport foodservice, all vying for contracts at the largest 150 U.S. airports.

"This is a small industry, so word gets around," Ambrust says. "Airport people don't know nearly as much about foodservice as they should, so they are now willing to listen to [leaders like the Antons.]"

## Portfolio Management

Sixteen years since its founding, Anton operates 83 national brands, ranging from Starbucks to Golden Corral to T.G.I. Friday's, 16 local brands like Moxie Java, and 52 original concepts in 20 airports including JFK International Airport, Minneapolis-St. Paul International Airport and Norfolk International Airport. To achieve that portfolio—and projected 20 percent annual growth next year—the company has had to balance the contracts it would accept. Unlike other franchised situations, airports rarely change their brands once they have been opened.

The business is not the same as opening a franchise location in a mall or at a street corner, the executives say. As a concessionaire, Anton Airfood is particular about which concepts it pairs with its terminals. According to the Antons, great concepts like Baja Fresh need too much back-of-the-house space and on-site prep to work in an airport environment. Labor issues that all restaurant businesses face are exacerbated in airports. Employees must pass a 10-year FBI background check before they can be hired, which eliminates many candidates. Lack of public transportation to many smaller airports makes the jobs inaccessible to some prospective employees.

Once a franchise concept and staff is chosen, other oddities crop up. One casual-dining franchisor required all its units to have a 2 p.m. daily staff meeting, Patricia Anton remembers.

"We cannot do that because we do not have standard meal times. We cannot just stop and close the kitchen. Someone will come in and order a hot dog because his time zones are screwed up," she says.

Despite all the airport eccentricities, the Antons are almost amazed by the company's success. William Anton says, "We sometimes have to pinch ourselves. We're close to ending our five-year plan, and we're on target to make \$200 million by 2008." That's a big difference from the nightclub and fine-dining restaurant of the 1980s, which were not profitable. "We refer to that as our 'patron of the arts period,'" he says. **CL**



# Dairy in Demand

Availability of healthful dairy products away-from-home is on the rise

With obesity concerns across America, consumers are looking for healthier food options at QSRs. Parents and teens say they would visit QSRs more often if healthier choices were available—and they'd be willing to pay more for them, according to a 2003 Technomic study.

Dairy provides an enticing spectrum of offerings for health-conscious customers. And many parents say they want to see more dairy on the menu: 69% of moms say they wish QSRs would offer a wider variety of dairy products, including healthy dairy snacks, a 2004 GfK Kids Study reported.

## Nutrients and Nutrition

Dairy provides a powerful nutritional package. It's rich in calcium, vitamin B-12 and protein. It is also rich in potassium, phosphorus, vitamins A and D, riboflavin and niacin.

One of the key recommendations of the new U.S. Dietary Guidelines is to consume three cups per day of nonfat or low-fat milk, or equivalent milk products. And word is getting out: a 2004/2005 Yankelovich Monitor study found that nearly 4 in 10 consumers care about getting more calcium. Increasingly, they can do just that at QSRs.

## Got Dairy?

New innovations in dairy products—such as single-serving plastic packaging for milk, flavored milk, yogurt varieties and snacking cheeses—are boosting the category. Resealable plastic milk packaging is making a splash at QSRs around the country. McDonald's and Wendy's both made milk available in re-sealable, kid-friendly, plastic 8-oz. bottles in white and chocolate, and saw

their milk sales skyrocket.

Wisconsin-based Culver's has long offered milk in single-serving cartons, but found that its customers were interested and enticed by new milk packaging. In response, all Culver's locations in 15 states are rolling out plastic resealable "milk chugs," in 2% white and lowfat chocolate.

An increasing number of Subway franchises in the U.S. and Canada are also menuing milk. Individual operations are reacting to local demand and adding plastic re-sealable milk containers as an independent initiative.

The demand for milk includes flavored milk as well. Sixty-nine percent of kids say chocolate milk is their favorite drink, the GfK study found, and 40% of adults who order milk at

QSRs regularly purchase chocolate—and would like to see more flavors available, according to a 2004 NPD study.

Because of yogurt's wide appeal and healthy platform, many QSRs are adding it to menus. One recent example is Wendy's fresh-fruit-and-yogurt entrée salad with low-fat strawberry-yogurt dipping sauce, available throughout the day. Another is McDonald's new Fruit & Walnut Premium Salad, with sliced apples, red seedless grapes, candied walnuts and a side of low-fat vanilla yogurt.

## All-Day Dairy

Healthful dairy items span the day-parts—they're not just for breakfast. Milk is becoming a popular beverage throughout the day: 1 in 5 adult QSR visitors ordered milk for themselves in the past 3 months, and 39% of these adults bought milk with meals other than breakfast, according to the NPD study.

Yogurt, too, has cross-over potential. McDonald's low-fat yogurt parfaits are available all day, and since their introduction in 2002 have become popular for breakfast, lunch and as a healthy snack or dessert, according to the company. Parents prefer to order yogurt for their children as a side item, snack or dessert alternative to cookies or cake, the GfK study found.

And for a healthy snack option, consider adding string cheese: 73% of kids say it's fun to eat string cheese, and 60% said they would definitely or probably order it as a snack, the GfK study found.

From breakfast parfaits to string-cheese snacks to refreshing milk, dairy is adding its healthful, delicious attributes to QSR menus, all day long.



Dairy provides an exciting spectrum of choices for health-conscious customers.





# FULL SPEED AHEAD

*New and existing technologies speed service at the drive-thru and takeout counter.* BY LISA BERTAGNOLI

**B**ojangles' President Tom Lewison has worked in quick service for more than 30 years, and from his point of view, nothing can make a drive-thru more efficient than a good service support system. "That's the root of speed at the drive-thru," he says.

That said, many chains, including Charlotte, N.C.-based Bojangles', have installed speed-inducing technology at drive-thrus and takeout counters.

Mere seconds make a difference, says Mark Godward, president of Strategic Restaurant Engineering, a Miami-based foodservice consulting firm. "If you can cut your window time from 45 seconds to 42 seconds, you're increasing throughput by 10 percent," Godward points out.

That three seconds might not mean much to a customer, but to a unit handling 70 cars an hour, it can mean an extra seven cars per hour, Godward explains: "That's a big deal for an operator."

### **Mid-Tech, High Results**

Technology doesn't have to be Jetson-esque or expensive to be effective. When Damon's Grill, the Columbus, Ohio-based rib chain,

rolled out curbside service to 80 of its 115 restaurants in March, it discovered that a mid-tech combination of cameras and sensors works just fine.

Adjustments needed at each restaurant depended on its design, says Shannon Foust, president of Damon's. Some stores only needed cameras to alert staffers when cars pull up to the curbside; others required a door and window so staffers could see the dedicated parking spots.

The initial investment was low: "The cameras are not that expensive, maybe \$100," Foust says. "We're spending more money on training than equipment." Training focuses on the importance of speed for curbside customers. On weekends, stores dedicate a staff person to delivering orders to curbside customers.

Before Damon's curbside program, takeout accounted for 7 percent to 8 percent of sales, Foust says. Curbside service has boosted that total to 10 percent to 12 percent, all incremental sales that add about \$100,000 to unit volumes. Check averages for dine-in and takeout are about \$16.

Curbside has resulted in an interesting sales shift: Damon's ribs account for a higher percentage of the takeout mix than they

*(continued on p. 83)*

Drive-thru timers have helped Bojangles' increase store volumes by one percentage point.



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## Damon's Grill's fast curbside service has increased sales by \$100,000 per store.

do the dine-in mix. "We have a product that carries very well," Foust says.

With further technological advancements—Damon's is investigating the possibility of swipeless credit-card payment—curbside could account for 15 percent to 20 percent of sales, Foust says.

### Look, Ma, No Hands

Foust might want to talk to Rob Williams, controller at The Bailey Company, the Denver-based Arby's franchisee. Late this summer The Bailey Company installed swipeless credit-card machines in 45 of its 67 restaurants in a major test that Williams calls "seamless."

"There was no learning curve for the staff; there were no glitches," he says.

The Bailey Company spent \$300 to \$500 per store to install new credit-card readers; the higher price was for readers requiring weatherproof casing. The stores also had to install new software in their credit-card acceptance machinery to accept the swipeless cards, which are installed

with an RFID chip. RFID, or radio frequency identification, enables the chip to send and receive information, in this instance payment information to the bank. Use of the technology is limited to customers who carry the swipeless card, a Chase Bank product called blink.

Chase is heavily marketing the blink cards with a series of ads in Denver; some mention Arby's. "They're doing all the promotion and advertising for us," Williams says.

Test results show that drive-thru transactions using the swipeless card are five to seven seconds quicker than with a traditional card, and that carryout transactions are three to five seconds quicker.

Williams says credit-card purchases are 15 seconds faster than cash in the drive-thru and 10 seconds faster at the counter. Guests using credit cards spend an average of \$11, vs. \$7.50 for cash customers.



On weekends, Damon's Grill dedicates an employee to handling curbside service.

### FINGERTIP FINANCES



When it's time to pay, customers at two Jersey Mike's restaurants in Rock Hill, N.C., don't whip out cash or a credit card. They give the staff the finger.

That is, they press their index finger on an electronic reader and enter a personal identification number. The reader matches the fingerprint and PIN to the customer, and then debits the amount from that customer's checking account.

The system, called

Biopay, is "a nice alternative to checks," says Bob Katz, franchisee for the two restaurants and a third Jersey Mike's in Fort Mill, S.C. For Katz, the Biopay system costs 10 percent less per transaction than the bank fees associated with a credit-card purchase. Biopay customers, like credit-card customers, spend 10 percent to 15 percent more on their meals than do cash customers.

Because Katz's stores are among the first to use

the technology, Herndon, Va.-based Biopay paid for installation, which would have cost \$700 to \$1,000 per store, Katz estimates.

However operationally friendly, Biopay has yet to catch on with customers. Katz says only about two dozen customers have registered for the service so far, but that number might spike when retailers near the Jersey Mike's stores begin offering Biopay.

Or it might not. "Customers either like it or are leery of it," Katz says.



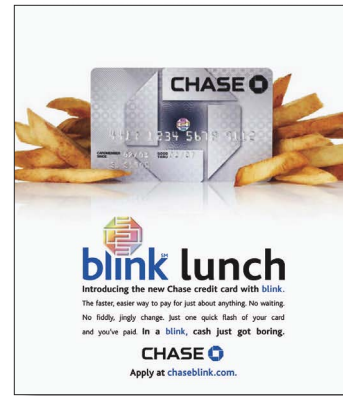
*Arby's franchisee The Bailey Company is testing swipeless credit-card readers that save time and raise checks.*

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Chase Bank's Denver advertising is helping to drive credit-card transactions at local Arby's.

The swipeless technology could boost credit-card transactions to 25 percent this year, compared to 20 percent in years past, Williams says. "By the end of 2006, we'll be close to 50 percent," he adds.

### Red Light, Green Light


Bojangles' drive-thru has always been busy, accounting for about 59 percent of sales. After the chain added timing devices to the drive-thrus of its 350 stores, "We're now north of 60 percent," Lewison says.

Lewison admits that the chain is late in adapting the timers, which alert the kitchen that a car is at the drive-thru and then time the wait at the ordering station and the pick-up window. A readout in the kitchen can be programmed with incentives such as a green "fantastic" for a quick job or a yellow "let's hurry." The readouts make it "more fun" to motivate the kitchen, Lewison says.

Installation per store cost between \$2,000 and \$2,500. Given unit volumes of \$1.35 million and the 1 percent hike in volume, "That's a pretty quick return on investment," Lewison says.

Since Bojangles installed the timers a year ago, drive-thru times have dropped by 20 seconds, to 120 at breakfast and 150 at lunch. Check averages have risen 20 cents, thanks to a new credit-card system, and same-store sales were up 8 percent through July. "Improving the drive-thru keeps us on the playing field," Lewison says. "It's a basic expectation of the guest."

Bojangles' is investigating drive-thru enhancements including a translight menu board that will be easier to change and that will steer customers to core menu items. Still, Lewison maintains that it's not the technology that counts, but the service behind it.

"Great food fast with a smile, you win," he says. "And if service supports it, you really win." 



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# Sandwich Bites

*National sandwich chains' share of QSR traffic continues its upward trend.*

BY MARY BOLTZ CHAPMAN

Sandwich chains' share of QSR purchases continues to rise, according to the quarterly Quick-Track survey by San Clemente, Calif.-based research firm Sandelman & Associates. In fourth-quarter 2004, it reached 11.0 percent, its highest point since Sandelman began tracking fast-food share in 1995.

- National sandwich chains see 12.6 percent of all fast-food customers' past-month lunch occasions and 8.1 percent of dinner occasions, a 21-quarter average shows.
- Of QSR users who ordered a sand-

wich on their most recent occasion, 54.6 percent did so at lunch and 39.6 percent at dinner.

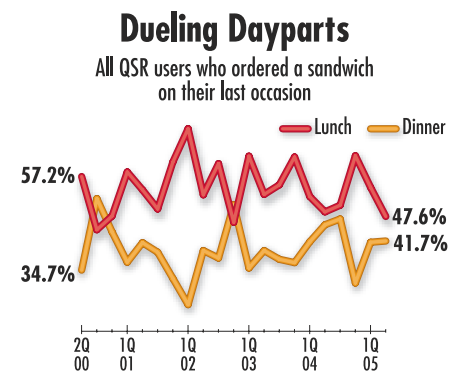
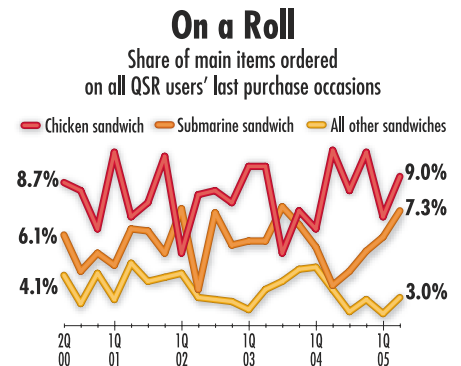
- 49.2 percent of fast-food users having a sandwich on their last visit used carryout, 32.6 percent ate in the restaurant, and 15.7 percent used the drive-thru. Of all QSR users' last occasions, 30.8 percent were carryout; 27.3 percent, eat-in; and 30.1 percent, drive-thru.

- Those who had a sandwich on their last occasion paid slightly less per person on average than all users: \$4.45 vs. \$4.65.

- They were also less likely to use a limited-time special promotion: 19.1 percent did vs. 22.1 percent of all fast-food users.

- 33.2 percent of fast-food customers ordering a sandwich on their last purchase occasion were alone, while 26.9 percent of all QSR users were, according to a 21-quarter average.

- 17.7 percent of QSR users having a sandwich on their last occasion



also had chips; 15.8 percent had french fries.

- Second-quarter 2005 data show that customers whose household income is \$50,000 or more comprise 58.9 percent of sandwich-chain users. They make up 49.6 percent of all QSR users. **CL**

## Sandwich Slices

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



Sandwich chains' share of past-month purchases



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



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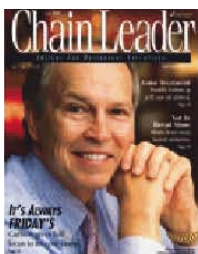


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# Staying in Tune

*Tossed's Marc Meisel turns to music to unleash his creativity at work and play.*

BY CHARLES BERNSTEIN

Playing in bands has been Marc Meisel's passion since he was 13 in Westchester County, N.Y. "We were very serious considering how young we were," he says. "We had band rehearsals three evenings a week, played a lot of events and actually made some money. But we still were kids, and after two years, one guy wanted to stop and others went on to other things."

## Regrouping

In 1985, while in high school in Armonk, N.Y., Meisel formed a rock 'n' roll band called Rites of Passage, in which he was the lead singer and drummer. He also started writing his own songs, emphasizing that he

would "never write a song in a certain style just because a popular band had a big hit in that style. I would only write what was true in my heart," he says. The band lasted through high school, playing many local events, but split up when the members went to separate colleges.

After graduating college, Meisel hooked up with a group called Mama Kettle, which included guitarist Alan Stuart and pianist Steve Broderick. The band toured the United States for a few years in a van and played gigs in many college towns.

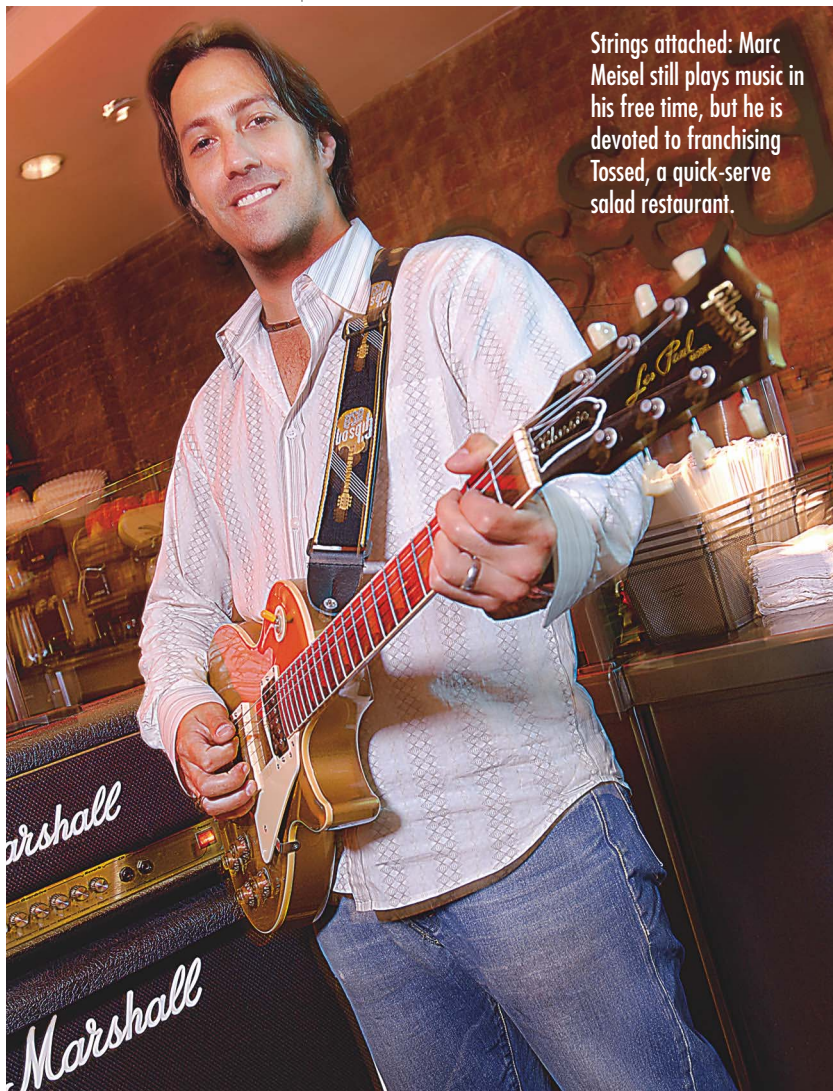
Mama Kettle broke up in 1995. That's when Meisel decided to try cooking as a career. He took a 20-week cooking course in 1996 and went to culinary school in 1997. Meisel later helped manage a few restaurants and was a line cook at Larry Forgione's American Place restaurant before opening his own restaurant.

In 1998 he helped launch Tossed, a quick-serve salad restaurant in New York. He has since opened two more units in New York and Livingston, N.J. Another one is due in South Florida in 2006. Meisel, founder, executive chef and operations vice president, and his partners plan to franchise units around the country.

## On the Side

While he focuses on growing Tossed, Meisel still plays music in his spare time to the delight of his 2-year-old daughter. He also often plays the guitar, piano and drums with the singer and guitarist of his previous band. "The three of us were the core of the band, and the singer also plays bass so well that we can have a good jam session," Meisel says.

Meisel, 36, admits that he can't commit himself wholeheartedly to both music and the restaurant business. "Right now I have to give my all to Tossed," he affirms. However, if the company's growth plans proceed as expected, he hopes to form a casual band again and "have some fun, preferably with my former mates." **CL**



Strings attached: Marc Meisel still plays music in his free time, but he is devoted to franchising Tossed, a quick-serve salad restaurant.



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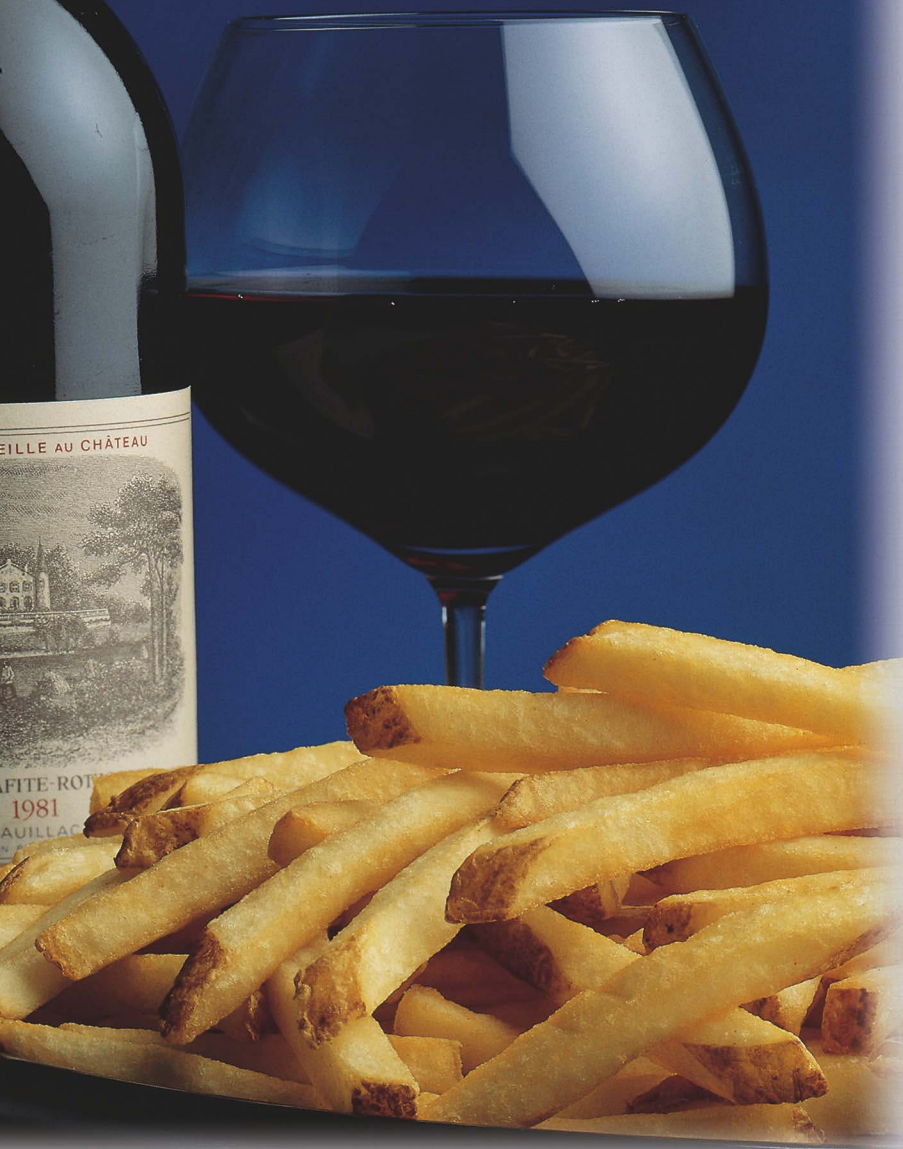
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