

Olive Garden travels to Italy for more authentic dishes.

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Wingstop commits its culture to paper. PAGE 42

FULL CIRCLE

IHOP CEO Julia Stewart's rapid rise has prepared her to take on Applebee's.

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GUEST
Amenities

Greg Burns discusses what customers get out of the rebranded O'Charley's and Ninety Nine concepts. By Mary Boltz Chapman

There's a transformation going on at O'Charley's Inc., says CEO Greg Burns. At headquarters in Nashville, Tenn., that means a strengthened leadership team, new distribution system and enhanced technology to support operations. The O'Charley's brand and sister concept Ninety Nine both have new prototypes, menus and service systems. *Chain Leader* spoke with Burns, who appeared on our cover in August 1999, about some of the prominent changes.

What does the customer see that's different?

With Ninety Nine, it's very significant changes. Ninety Nine quite frankly had kind of a tired, old look, a lot of artifacts and things on the walls. They would see a much more contemporary look in the restaurant: warmer, carpeting, different lamps.

Then what they'll see is a hostess server that will look you in the eye. They'll have a sharper uniform, more up-to-date uniform, cleaner look. They'll welcome you and immediately engage you in conversation.

At O'Charley's, it's very similar. You would come in and see a more up-to-date looking O'Charley's. You'll notice O'Charley's used to use a bus person. We don't do that anymore. We don't do tray service; servers carry those out to the table. I don't like to use the word "upscale"—I would call it a more polished level of service at both concepts.

You've also been working on the menu. Could you tell me a little about that?

The menu used to be what is typical in casual dining, this fold-out menu that you take your arms and spread them out from end to end. We went to a book-type menu with pages. We did some different categories, and we did more work on [menu] descriptions. From a quality side and from a productselection side, we still have our standard items that you have seen at O'Charley's and Ninety Nine. But we've also done variations on some products. We really highlight the menu a lot through limited-time offers. That's where you'll see quite a few changes in terms of offerings of different items that you wouldn't see in the past.

We don't want the menu to appear to be overly expensive, because it's not. We maintain a broad selection of menu items so you can find pricing in the menu in the \$9.99 area, \$10.99, as well as up to \$17, \$18.99.

Your average check is about what, \$12, \$13 at O'Charley's?

Yeah, Ninety Nine is higher, but primarily driven by a higher liquor mix. If you look at it from a straight food side, it is very similar in terms of pricing.

With that kind of average cost, it's kind of a tricky time right now, with customers pulling back a little on their dining purchases.

Well, this is something we've talked a lot about. One of the big changes that we're making at O'Charley's is eliminating Kids Eat Free, a program we had for a long time. But we felt with changing demographics, an aging population, plus we want to deliver higher quality food and some broader offerings, that Kids Eat Free had run its course.

Quite frankly, that has taken guests away. It's not that we don't want families. But we want to transfer to guests that are willing and able to pay for a higher product. Having said that, what we're finding is our core customer has come in, and they're buying the products because they see more price-value. It's not always about the lowest price.

The Chain Leader Cover Society is made up of

society is made up of the executives who have appeared on the cover since the magazine's debut in August 1996. This occasional feature updates readers on a Cover Society member.

on the web: For more about the transformation of O'Charley's and Ninety Nine, download a transcript or listen to the extended interview at <u>www.chainleader.com</u>.

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Think outside the tortilla."

Chain Leader®

Vol. 12, No. 11/November 2007



Cover story Full Circle 36

The winner of this year's Chain Leadership Award, IHOP Chairman and CEO Julia Stewart has quickly risen through the ranks of the restaurant industry including stints at Taco Bell and Applebee's. When IHOP finalizes its acquisition of Applebee's at the end of the year, Stewart will put all that experience to the test as she tries to turn around the ailing bar-andgrill chain.

By David Farkas

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In several regional and national promotions, Taco Bell has partnered with companies ranging from the Philadelphia Eagles to MTV to expand its

marketing reach. And for the first time it has joined up with sister brand KFC, a potential precedent.

By Margaret Littman

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Olive Garden immerses its managers and chefs in Italy's food and wine culture by sending them to the company's Culinary Institute of Tuscany in Italy. It has helped the chain launch several more-authentic dishes that don't alienate mainstream American tastes.

By Monica Rogers





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Canada-based Extreme Pita has opened offices in Scottsdale, Ariz., and Denver to more effectively support franchisees in the United States. The company hopes it will also help successfully navigate the U.S. franchising and real estate markets.

By Lisa Bertagnoli

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Wingstop recently put its culture on paper in Principles & Beliefs, a 39-page booklet that codifies the chain's ethics and approach to its business and people. In addition to sending it to vendors and franchisees, Wingstop will include it as part of training for new employees. **By Lisa Bertagnoli**

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Mary Boltz Chapman Editor-In-Chief had an e-mail conversation the other day with a reader who wanted to pick my brain about creating and launching retail products borne out of restaurant-chain brands. Like how you can pick up a Taco Bell taco kit (just add beef and toppings) at the supermarket and serve dinner with some refreshing T.G.I. Friday's margaritas.

Chi-Chi's "restaurant-style" tortilla chips are still available, while the chain is no more. And the reader reminded me that Stouffer's frozen foods are what's left of another restaurant brand. Folks in different regions and age groups can probably come up with many more examples.

Name-Brand Merchandise

Beyond food items, chains

license products like clothes, cookware and toys. I played with a Weebles McDonald's store as a kid. The cash register rang when you pushed it. I have a Burger King toy food set from the '80s tucked in a safe place so nobody tries to sell it at a garage sale. I see the same A&W mugs that we used growing up on shelves at antique stores. Maybe they don't count, because they're more premium than brand extension. But I wonder if my mom still has them in the basement?

And the list is long of companies that have created brand extensions in the form of restaurant chains: NASCAR, Harley-Davidson, Lipton Tea, Nestle Toll House, American Girl, Fox Sports, ESPN.

A brand extension is less risky than launching a new product, because consumers are already familiar with the name. It can reinforce a brand's assets and build equity.

But there are plenty of brand extensions that have failed for various reasons. Harley-Davidson debuted a line of boots one year to great success, but the next year it introduced a cake decorating kit. Really. Hooters Air struggled with the rest of the airline industry after 9/11, but would it have ever had a large enough customer base to support it? And Mattel launched a line of adult accessories under the Barbie brand.

Take a Chance

So do you take a chance and launch a product that might hurt the brand? According to a research report from the Anderson School of Management at the University of California-Los Angeles, the risk is low: "Research suggests that brand dilution seems to occur only under very specific circumstances....In other words, a strong, diagnostic and inconsistent extension experience is necessary for consumers to update their feelings towards the parent brand."

The report says a strong brand not only has the best chances of achieving successful extensions, it has the best chance of overcoming an unsuccessful one. Harley-Davidson, Hooters and Barbie didn't suffer from their missteps because they have powerful brands able to absorb the failure and move on to try something else.

Brand extensions should make sense for the brand and its priorities. There has to be some correlation between the brand and the extension. It makes more sense for Subway to launch a line of yoga balls than a line of golf balls. Ted's Montana Grill is known for its sustainable bison-herding practices, but customers would not go for a line of belts and handbags. And, of course, they should be done with a carefully chosen partner.

Then, like Chi-Chi's and Stouffer's, the extension could live beyond the original product.

I welcome your feedback. Contact me at (630) 288-8250 or mchapman@reedbusiness.com.

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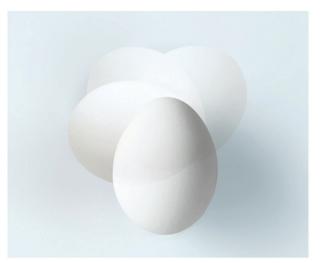
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on the money

On the UP AND UP

Rising wholesale food prices continue to hamper restaurant margins. By David Farkas

> The good news: The economy probably isn't headed for a recession. The bad news: The outlook for restaurant profitability remains as tough as ever as food costs continue to climb.

That was the message of three experts in a UBS conference-call series hosted by restaurant analyst David Palmer. In separate calls, Jerry Dryer, editor of *Dairy & Food Market Analyst*, and Kevin Good, senior market analyst for *Cattle Fax*, offered an outlook for dairy and meat prices, respectively, in 2008 and beyond. Finally, UBS economist James O'Sullivan discussed key economic drivers affecting consumer spending.

Price Hike

Dairy costs, for example, have risen significantly since last May due to sharp increases in energy costs and product demand, particularly abroad. "The whole [dairy] distribution chain uses energy," Dryer said, noting cheese had climbed to \$2.20 a pound in June. He predicted cheese will cost \$1.65, about 30 cents higher than its five-year historical average, in 2008.

Although dairy prices have retreated, Dryer wasn't predicting sizeable declines in the next 18 months, despite a recent increase in production. "We are operating with a new floor, and we are not going back to historical five-year averages," he said.

Restaurant chains contributed to the demand, buying up dairy products while prices were low in '05 and '06, which encouraged promotions. Developing countries are importing dairy products at record levels. Milk exports totaled 9 percent of production this year; next year, they will climb to 12 percent.

"The international market is very significant," Dryer added, noting the weak dollar makes American products attractive.

Trade-offs

Both domestic and international markets are increasing their demand for American beef products despite flat production levels due largely to drought conditions and the rise in feed costs.

"Wholesale prices will be up 2 to 5 percent, and retail about the same," Good said. Production, however, will remain flat for the next two years, he predicted, despite an increase in the number of cows slaughtered.

Higher prices for Choice grade beef has hampered margins at casual-dining chains. "It drove [them] away from the Choice products," Good surmised. "Instead of using filets and porterhouses, they're now using flat iron steaks or moving back on the carcass to sirloins to cheapen up their end cost. If they were to use the same product a year ago, they would have to raise their prices."

Good also predicted fast-food companies will import more ground meat in '08 because U.S. production levels are flat and prices are rising. Exports are climbing, particularly to Japan and Korea, but levels remain below record highs of '03, he noted.

O'Sullivan, the economist, said that while consumer spending was slowing this year, job growth remained relatively strong and consumer loan defaults were up only modestly. He said he doesn't expect the economy to slide into a recession.

It's good news for restaurants that have price flexibility.





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Piece of the PIE

The Cravery introduces America to its hand-held, portable pot pies. By Maya Norris

When most Americans think of pot pies, they usually envision chicken and vegetables cloaked in a gooey sauce that is eaten with a fork and found in the frozen food aisle of the grocery store. The Cravery hopes to change that image with its global interpretation of the pot pie as it expands in California and beyond.

CEO Brian Khoddam and President Hormoz Ghaznavi, his uncle and a chef, created The Cravery in 2004. Khoddam was inspired on his vacation in South Africa, where handheld meat pies are popular. Two stores have since opened in Irvine and Los Altos, Calif.

World View

"Savory meat pies can be found everywhere in the world virtually with the exception of the United States," explains COO Kevin Kelly. "Empanadas, pierogies, pasties—they go by a lot of names, but it's the same concept of a dough-rolled crust that's filled with savory products. The U.S. does not have anything like that. Brian saw that as an opportunity to take this literally worldwide concept and bring it to the U.S., where it's a hand-held, portable item. It's a complete meal in your hands that you can eat on the go."

The Cravery offers a variety of pot pies with a global influence. The best-selling pot pies are Creamy Chicken & Mushrooms, \$5.25, in cream sauce finished with a touch of sherry; and Crack'd Black Pepper Steak, \$5.55, with sauteed onions and soy. Other popular items include Kickin' Thai Curry Chicken, \$5.25, with straw mushrooms, red bell peppers, garlic, ginger and lime in green curry; and Eggplant Parmesan, \$4.95, sauteed eggplant, zucchini and Parmesan cooked in a red sauce.

Work in Progress

While The Cravery is satisfied with its line of pot pies, it has been tweaking other aspects of the concept. It phased out gourmet desserts this year in favor of brownies, cookies and fruit bars because its market research indicated customers wanted basic desserts.

In 2006 The Cravery added salads and baked sandwiches, which now make up 7 percent of sales. It also debuted six combination plates that bundle the sandwiches and pot pies with items such as soda, potato chips and soup. The company credits the combination plates for increasing its average check to \$10 from \$8.20.

The Cravery is testing two varieties of mashed potatoes and planning to roll out 5ounce breakfast pot pies in November after customers said the 8-ounce size was too big. The company will start marketing pot pies as a home-meal replacement to build dinner business in 2008.

The Cravery has also kept itself busy with expansion, mostly through franchising. At press time, the company was opening a unit in Tustin in October, and a franchised unit is slated to open in San Francisco in November. In 2008 two or three more units will open in the Los Angeles metro area.

The company plans to break out of California in 2009, targeting Oregon, Washington, Minnesota, Wisconsin and Michigan. It expects to have 100 units operating in 10 years on the West Coast and from the upper Midwest to the Ohio Valley.

Because The Cravery targets middle class to upper-middle class families as well as professionals, it prefers to open inline units in urban areas with a mix of residential and business traffic.

upstar

The pot pies feature a proprietary dough key to its portability: "It's similar to a croissant dough with more bread characteristics," COO Kevin Kelly says. "You can eat it without it being in your lap."

SNAPSHOT

Concept The Cravery Headquarters Gardena, Calif. Units 2 2006 Systemwide Sales \$1.1 million 2007 Systemwide Sales \$1.2 million to \$1.3 million (company estimate) Average Unit Volume \$400,000 to \$500,000 Average Check \$10 Expansion Plans

2 in 2007, 2 or 3 in 2008

More People Eating "Deskfast" On-the-go consumers clamor for breakfast sandwiches with cheese.

ne of the most underdeveloped foodservice niches is the breakfast daypart. Although the QSR breakfast segment has been growing at an amazing rate—up to \$14.9 billion in 2006 from \$10.4 billion in 2001—the Technomic 2007 Breakfast Report mentions that roughly 70% of the population still either eats breakfast at home or takes breakfast from home to consume elsewhere. Obviously, these people haven't experienced a luscious breakfast sandwich with cheese.

"Deskfast" became a concept during the mid-nineties when many office workers began to eat their breakfasts after arriving at work. Tougher commutes and longer working hours left consumers more timecrunched than ever so it's not surprising that they were looking for easy breakfast solutions that could be eaten on-the-go.

Competition Heating Up

But foodservice operators faced competition from grab-and-go retail items such as granola bars and snack cups, so foodservice offerings had to be designed to exceed the consumer's expectations in convenience, value and taste.

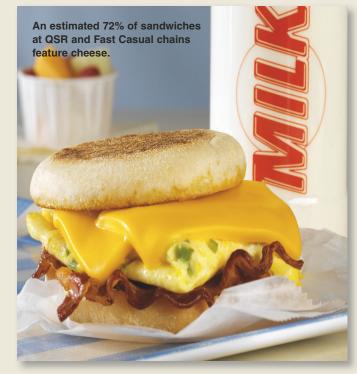
Enter the breakfast sandwich. Chains began to combine the old American breakfast of eggs, breakfast meat and cheese inside a hand-held muffin, croissant or bagel. This convenient breakfast option was tasty, satisfying and portable.

But today, savvy operators know it's the variety of tastes that will expand their business in this increasingly competitive arena. Swiss cheese, chicken, chorizo, pepper jack cheese, jalapeños and hollandaise sauce are showing up on Texas toast, ciabatta, flavored tortilla and sourdough. And it's this variety that gives breakfast sandwiches the broad appeal that makes them such strong sellers.

QSRs Drive the Trend

In a recent Mintel survey, 28 QSR operators reported adding 67 new breakfast items within the past year and a half, with the breakfast sandwich being a big driver. In the second half of 2006, Technomic's Menu Monitor showed an 8% increase in the number of breakfast sandwiches being offered, and an almost constant ingredient is cheese.

The Big Three burger chains all offer breakfast, and a majority of their breakfast sandwiches include cheese. Sonic includes cheese in each of its breakfast offerings, whether it's on Texas toast in its Toaster



Sandwich line, or in the spicy SuperSONIC[®] Breakfast Burrito. And nearly all of the dozen plus breakfast items at Jack in the Box, from its Meaty Breakfast Burrito to the Ciabatta Breakfast Sandwich, include one or more cheeses to add that rich, creamy taste and satisfaction that come from nothing else.

More Cheese, Please

Cheese has been a big part of breakfast sandwiches' allure all along. It makes them more of a complete meal, adding flavor, richness and texture, not to mention a healthy hit of calcium to start the day. Cheese is a proven ingredient that transforms any breakfast sandwich. According to Technomic's 2007 Menu Monitor, 72% of sandwiches at QSR and Fast Casual chains feature cheese.

And because of this, an increasing number of QSR operators are including more than

one cheese in their breakfast sandwich items. Carl's Jr. caters to cheese-loving customers, using both American and Swiss in its Breakfast Club and Sourdough Breakfast sandwiches, as well as Monterey Jack and Cheddar in all three of its breakfast burritos. In 2006, Dunkin' Donuts added the Supreme Omelet, a croissant with bacon, three cheeses, egg, peppers, scallions and hash browns.

For QSRs, the great news is the increasing numbers of consumers enjoying the convenience and taste of today's breakfast-sandwich innovations and the cheese that makes them a true treat.

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Table Cleaning Wipes io use

recent independent study confirms that - overwhelmingly - restaurant patrons want dining area tables to be *clean* and sanitary. But what cleaning method do customers prefer? Three to one, respondents felt disposable, pre-moistened table cleaning wipes were a better means for cleaning tables than multi-use cotton towels - which were perceived as ineffective and possibly even spreading germs from one table to the next. In fact, more than half of those surveyed indicated they would choose to eat at a restaurant that used disposable table cleaning wipes over one that did not.

Sani-Surface® Table Cleaning Wipes from Nice-Pak* are a quick, easy to use alternative to potentially dirty cotton towels. Simply use a fresh wipe for each table and toss the soil into the trash! Improve your customers' perception of cleanliness - and build increased loyalty and sales, wipe after wipe!

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Sani-Surface[®] Table Cleaning Wipe sample can also be obtained by calling 888-33-WIPES 94737



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Customers Crave Cleanliness!

When asked about factors influencing which restaurants they patronize, a 2007 HARRIS INTERACTIVE® SURVEY revealed that customers ranked restaurant cleanliness second in importance only to food quality.

Respondents feel that it's important for restaurant table tops to be **spotless**.

Respondents view disposable table cleaning wipes as 3:1 being more effective than multi-use cotton towels.

96°

55% Patrons would be **more likely** to choose to eat at a restaurant that used disposable table cleaning wipes.

how to grow to 100 units

Let's Make a **DEAL**

Restaurant chains offer their profitable strategies for working with their suppliers.

By Maya Norris

mall restaurant chains usually don't have the purchasing power to get the best prices from their suppliers. But an emerging chain can still strike a bargain, especially because manufacturers and distributors know that small but growing chains provide them with future business. *Chain Leader* spoke to some chains about how they go about developing a profitable relationship with their suppliers.

John Nelson, director of purchasing and distribution, Taco Del Mar, Seattle

An important tool is to get your purchase data from your broadline distributor. Once I have that, then I can go to those manufacturers and ask for pricing.

Start with the top of the list, of the most dollars or the most cases. Group them by manufacturers. And sometimes there's an opportunity to consolidate because it's the total relationship that the manufacturer is going to look at. So if you happen to have packaging items from four different suppliers, maybe you can buy everything from one supplier in that category. Then you're a more important customer to them, and that can translate into significant savings.

Harry Bond, president, Monical's Pizza, Bradley, III.

We work a lot with what can we do with products that [suppliers] already have that are standard and not go in and say, "We need you to make this for us special." Because a lot of times when you're buying their standard products, you're going to get just about the same price as a large vendor like Wal-Mart's going to get because

these guys are just running a big line. And it costs them no more money to run one more product off the end of that high-volume line for you. So there's value there.

Dino Lambridis, co-founder, Evos, Tampa, Fla.

We knew that we were going to need the help of our distribution company when we open up in different markets. They proposed a master services agreement, where we agreed to purchase the majority of our products through them. So they bring in all these specialty products for us and help us open in new markets. And also it would allow us the ability to lock in a price structure and the option to do audits over time to make sure that we are getting proper pricing. So the master services agreement helps us accomplish something that would be very difficult to accomplish being the size we are—just four units growing in new markets.

Kelly Anderson, director of purchasing and distribution, Maui Wowi, Greenwood Village, Colo. We do quarterly business reviews with [our suppliers]. We know that today we have x amount





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"If you're buying what they're already manufacturing at high volume, you're going to get a decent price."—Harry Bond, president, Monical's Pizza

of units, and we know that tomorrow we will have 20 more, 50 more. We're always upfront and honest with our suppliers so that they know where our growth pattern is. If we're growing more than we had projected, we can go back to them and say, "OK, this is the type of customer that we are today. What can you do to help us and be a better partner?" Some suppliers may say, "You're right. Maui Wowi has been a good partner for us. So let's go ahead and lower your price, or let's give you more money at your annual conference, or we can do this for your rebate program."

on the web: Don Vlcek, vice president of

purchasing for Marco's Pizza, shares his top 10 tips for how growing chains can command the best prices long term from their suppliers. Visit *Chain Leader*'s How to Grow to 100 Units section at <u>www.chainleader.com.</u>

Thang Nguyen, vice president of operations, Salsarita's Fresh Cantina, Charlotte, N.C.

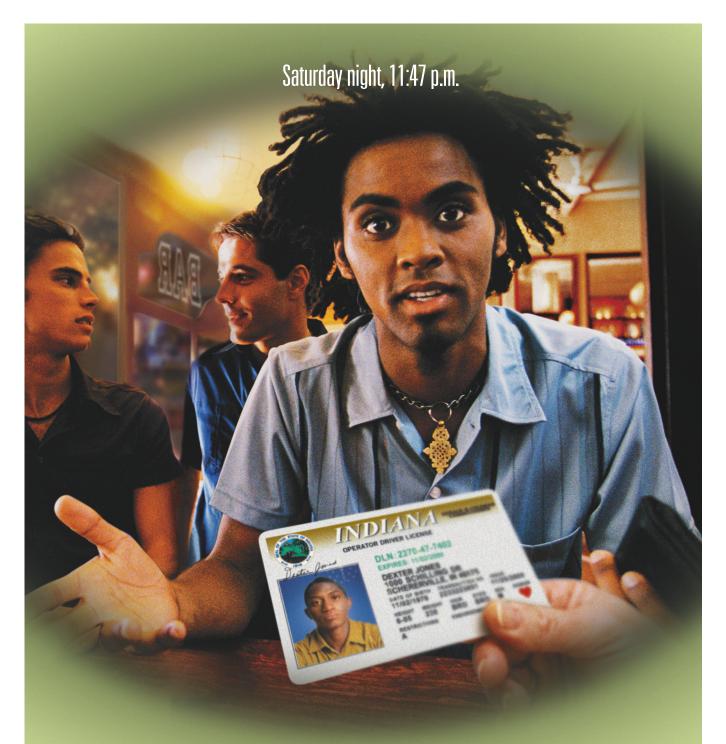
We start out by talking to our vendors [about] our growth plans. And being part of a franchise is good because we can show them that we do have franchisees that can commit to open stores. So before we even have 100 stores, we have franchisees who are committed to opening that amount of stores. So we can use that as leverage toward the negotiation.

Gerald Johnson, vice president of purchasing, Fatz Cafe, Taylors, S.C.

Before you can strike a bargain with your suppliers, you need to set up a contract with your broadline distributor, so the broadline distributor is simply a distributor of boxes vs. your distributor of food.

For example, right now we are working on moving to higher quality mixers. So I've got a contract with the company that I want to buy these mixers from, and I've coordinated with our broadline distributor to be able to set up an item number and buy that product for us. And they will deliver that product to [the distributor] at the contracted price, and then [the distributor] will mark up that product based on the deal that we've got with them. We eliminate all the middle people that can get involved in all that.





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DOUBLE Coverage

A regional **JOINT PROMOTION** brings Taco Bell and KFC together, and may set a tone for the company going forward. **By Margaret Littman**

or a Philadelphia Eagles' fan, the excitement for the new football season was the 75th anniversary of one of the NFI's most fan-supported teams.

But for those who watch the Super Bowl for the commercials rather than the game, the big news was Taco Bell and KFC's first crossbranding promotion.

In several regional and national promotions, Taco Bell had diverse partners ranging from the Philadelphia Eagles to MTV to expand its marketing reach. The regional spot was the first co-branded advertising effort with Taco Bell and KFC, while an MTV campaign got kids in on the action.

With the Eagles and Pepsi, Taco Bell and KFC franchisees in the Northeast unveiled a joint promotion this fall centered around a 32-ounce commemorative cup co-branded with KFC, Taco Bell and Pepsi logos. The text on the cup, which is free with purchase, details the top 10 moments in Eagles' history and has a code for a season-long sweep-

stakes. At the end of the campaign, one participant will win a grand prize: Eagles season tickets next year.

While the campaign is a regional one driven by local franchisees, it underscores the chains' national efforts to build the brands among their core demographic of 18- to 34year-old men by reaching out to them in different ways. A 30-second TV spot highlights Eagles games and directs consumers to the chains and the NFL team's Web sites. Pointof-purchase materials offer details.

With access to the marketing objectives and budgets for both Taco Bell and KFC, LevLane, a Philadelphia-based ad agency, developed the promotion that brought the two brands together in advertising the way they are together under the roofs of their many co-branded units.

"Neither the local KFC nor the local Taco Bell advertising co-op could have done this on their own," says Chris Ponzio, senior vice president and account director at LevLane.

LevLane has handled the marketing and



Taco Bell and KFC franchisees in the Northeast launched a joint promotion this fall centered on a commemorative cup and the chance to win Eagles season tickets.

A TV commercial highlights Eagles games and directs consumers to Taco Bell and KFC's Web sites. advertising for KFC in the Northwest for nearly 25 years and won the Taco Bell business a year-and-a-half ago.

Quenching Consumer Thirst

The three-year agreement targets the heavy fast-food user that both chains covet. In addition, the chains are hoping that the promotion will increase beverage sales.

Beyond having a hoped-for immediate sales boost, Taco Bell Field Marketing Manager Janice Haggerty, who oversees the brand in the Northeast, says the co-campaign will help raise awareness of the objectives of the co-branded units. Nearly one-quarter of the Taco Bell and KFC units in the greater Philadelphia area are multibranded.

"The consumer does not understand what the multibrand is," Haggerty says. "It is one of our core initiatives."

By putting Taco Bell and KFC under one roof, parent Yum Brands is working to build the "fourth meal," late-night dining. It is yet to be determined whether other local markets, or Taco Bell nationally, will launch similar co-branded ads, but it is likely given the chain's reliance on the dual units going forward. The majority of the chain's 750 new units planned for 2008 will be multibranded. In addition to KFC, Taco Bell units may be combined with other Yum brands including Long John Silver's and Pizza Hut.

"Multibranding is one way that Taco Bell gains a competitive edge by offering branded variety to our guests, and our customers love having added choices with two menus to choose from," adds Martin Hennessy, senior director, brand communications for Taco Bell. "It's also a cost-effective solution in markets that may not have enough population density to support a single brand."

Virtual Video

The Philadelphia Eagles promotion is not the only way in which Taco Bell is seeking to attract new customers. In September, the chain unveiled the results of an online competition in a commercial that aired during the 2007 MTV Video Music Awards.

For two weeks in July, Taco Bell encouraged consumers to create an avatar—an animated character that represents a person on the Internet—and audition for the 30-second ad with an enter-to-win TV spot aired on the MTV networks. The campaign was held in conjunction with Menlo Park, Calif.-based Gizmoz, a firm that creates photorealistic animation for the Internet. Taco Bell received 1,400 virtual auditions and selected three winners. The video clips were watched 920,000 times; consumers who checked out the Taco Bell VMA site stayed on the site an average of 9 minutes.

Airing the ad during the awards show helps build awareness of the fourth-meal period with the young side of Taco Bell's target demographic, says spokesman Rob Poetsch. "There has been a lot of buzz around consumer-generated media, and we wanted to develop a campaign around that," he says.

Overcoming Obstacles

These buzz-worthy efforts may help turn around what Argus Research and other analysts predict will be a softer than usual year for Taco Bell. In February, news reports showed a Taco Bell and KFC co-branded unit with a rat infestation, prompting the closure of 10 franchised units. This followed at least 71 Taco Bell customers infected by E. coli bacteria late last year, leading to the closure of almost 90 units. While the brand

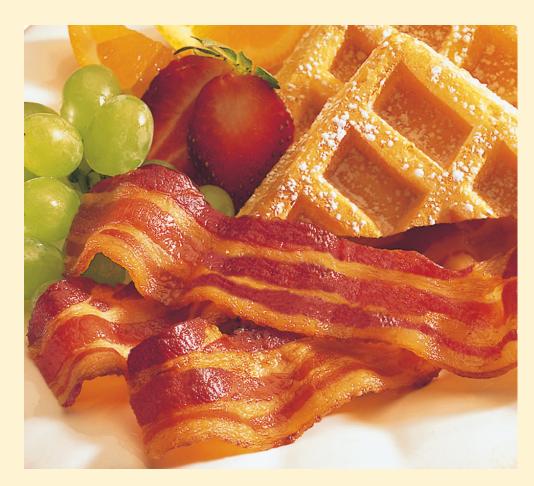
> continues to expand aggressively, the two events slowed sales.

Adds Hennessy: "Although using avatars was a different execution from our traditional food spots, it followed the same filter that all our ads do: It must be innovative and elevating, and it should reward the viewer with some entertainment value."

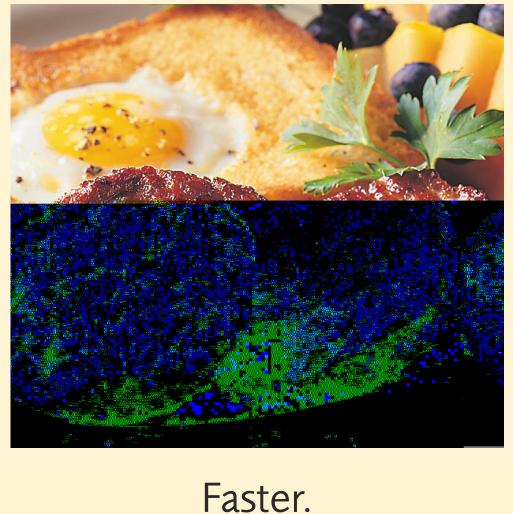
SNAPSHOT

Concept Taco Bell, Irvine. Calif. Parent Company Yum Brands Inc., Louisville, Ky. Units 170 combined KFC and Taco Bell restaurants in the greater Philadelphia area, 6,500 nationwide **2006 Systemwide Sales** \$6.5 billion **2007 Systemwide Sales** \$6.8 billion* **Average Unit Volume** \$1.2 million Average Check \$5.50* **Expansion Plans** 750 units globally, mostly co-branded *Chain Leader estimate









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On a mission to improve Italian food in America, Olive Garden development chefs Paolo Lafata and Flavio Tagliaferro travel to Italy for ideation and to lead training sessions.

Seafood does well at Olive Garden. Mussels di Napoli features mussels in the shell with wine, garlic butter and onions.

Grilled Shrimp Caprese, marinated shrimp over angel hair pasta with mozzarella, basil and tomatoes in garlic-butter sauce, was inspired by a trip to the Isle of Capri.

The Caramel Hazlenut Macchiato, Italian coffee with amaretto, caramel and hazelnut syrups, is topped with whipped cream and caramel drizzle.

A combination of slow braising and sous vide ensures a tender result for Chianti Braised Short Ribs, which are served over portobellomushroom risotto.



5

Olive Garden traces its roots, **TRAVELING TO ITALY** to develop authentic dishes that don't alienate mainstream America.

toque of the town

By Monica Rogers

Topeka, Kan., Tyler, Texas, and Des Moines, Iowa, are thousands of miles from Italy—on the map and in state of mind. With 621 restaurants sprinkled throughout these and many more middle-American towns, Olive Garden's challenge has long been to bridge that gap. By conducting menu research and training in Italy, the Orlando, Fla.-based casual-dining chain has made progress toward that goal, creating more-authentic, Italian-style dishes here.

Risotto (creamy Arborio rice), for example, debuted in July 2006. It's a dish that Director of Menu Strategy David Ellis says "eight years ago would have seemed out of left field to our guests." Next came gelato, the densely rich Italian ice cream, which also launched in 2006, followed by gnocchi, Italian potato dumplings, in July 2007.

The risotto is featured in two entrees: Shrimp and Asparagus Risotto, \$14.95, includes the rice in creamy Parmesan cheese sauce with sauteed shrimp and asparagus. Chianti Braised Short Ribs, \$15.75, includes risotto seasoned with Chianti and portobello mushrooms.

The \$5.50 gelato stars as a dessert with three scoops topped with caramel sauce and dark chocolate pieces. And Olive Garden introduced gnocchi as part of its \$13.75 Chicken and Gnocchi Veronese entree, with sauteed chicken and roasted red peppers in a Parmesan and ricotta cheese sauce.

Fifty-two straight quarters of same-storesales growth suggest guests appreciate these authentication efforts, which augment, rather than eliminate, longtime favorite dishes. Old standbys such as Spaghetti & Meatballs, \$12.25, and Lasagna Classico, \$12.50, still make "Cucina Classica" Olive Garden's bestselling menu category. But guests seem to be embracing the new as well: Pollo (Chicken) and Pesce (Fish) are the No. 2 and 3 categories, featuring new ingredients such as the aforementioned gnocchi and risotto.

"There's no question that the American palate continues to become more sophisticated and that guests are more willing to try new things," says Bryan Elliott, restaurant analyst with St. Petersburg, Fla.-based Raymond James and Associates. "It's also clear that Olive Garden has found the right balance between cutting edge and traditional dishes—a balance that allows the company to continue to drive frequency."

For Executive Chef Paolo Lafata, who came to Olive Garden 13 years ago, authenticating the Italian food experience for Americans "was more of a mission than a career move," he says. "I understood the power of being able to serve so many guests and felt Olive Garden would provide an amazing opportunity."



Concept Olive Garden Parent Company Darden Restaurants, Orlando, Fla. Units 621 2006 Systemwide Sales \$2.6 billion (fiscal year ends in May) 2007 Systemwide Sales \$2.8 billion (company estimate) Average Unit Volume

\$4.7 million Average Check \$14.50 to \$15.50

Expansion Plans 35 to 40 in 2008



toque of the town

MENU SAMPLER

APPETIZER

Smoked Mozzarella Fonduta, oven-baked mozzarella, Parmesan and Romano cheeses with Tuscan bread, \$6.50

CARNE (BEEF & PORK)

Pork Filettino: grilled pork tenderloin marinated in extra virgin olive oil and rosemary, served with Tuscan potatoes and bell peppers, \$16.25

PASTA RIPIENA (FILLED PASTAS)

Braised Beef and Tortelloni: sliced short ribs with portobello mushrooms and Asiagofilled tortelloni in basilmarsala sauce, \$13.25

POLLO (CHICKEN)

Tuscan Garlic Chicken: pan-seared breasts with roasted garlic, red peppers and spinach in a white-wine and garlic cream sauce over curly fettuccine, \$13.50

PESCE (FISH & SEAFOOD)

Seafood Portofino: mussels, scallops, shrimp and mushrooms with linguine in a garlic-butter wine sauce, \$15.25

DOLCE (DESSERT) Tiramisu: custard over espressosoaked ladyfingers, \$5.35

Olive Garden added Chocolate Gelato, topped with caramel sauce and dark-chocolate pieces, to menus in 2006. **Chicken and Gnocchi Veronese**

combines sauteed chicken with potato dumplings and roasted red peppers in a Parmesan and ricotta cheese sauce.

Easing its guests into familiarity with more distinctive Italian dishes, Olive Garden has introduced risotto, gnocchi and gelato in the last two years.

Italian Culture

Much of that vision has been realized through the Culinary Institute of Tuscany. Olive Garden established the center in 1999 for menu research and training. It is located in an 11th century restored village adjacent to the Rocca delle Macie winery in Tuscany.

CIT is a jumping-off point for Olive Garden's ideation team. With Lafata and Chef de Cuisine Flavio Tagliaferro heading the core menu team and Ellis directing menu strategy, every fall 10 to 15 development chefs travel to three or four different regions of Italy. The teams visit restaurants, markets and wineries in search of recipes that might translate well for the American audience. They discuss their findings at CIT and then return to the States to ready best-fits for operations. Travels to Northern Italy in 2006 yielded the Chianti Braised Short Ribs. This year's tour of Veneto brought Venetian Apricot Chicken, \$13.25, to menus. And in 2008, the teams will head to Southern Italy.

On separate training junkets, about 100 front- and back-of-the-house managers travel to the CIT each year to follow Lafata, Tagliaferro and Tuscany-based Romana Neri, head chef at the CIT, through a whirlwind, weeklong immersion in regional dining, cooking and winery experiences.

Visiting culinary managers from the States

One of Olive Garden's "Garden Fare" low-fat selections, Venetian Apricot Chicken tops grilled chicken breasts with an apricot and citrus sauce.

spend much of their time with Neri learning Italian cooking basics. "We look closely at the importance of every ingredient—the olive oil, the meat, the cheese, the produce," says Lafata, who serves as director of the CIT. "And we especially emphasize the Italian techniques of layering flavors in sauces one step at a time." Olive Garden restaurants produce 24 sauces from scratch each day.

But Lafata says the larger aim is to fully immerse managers in Italian culture. "In Italy, everything is done over the table: we marry, we fight, we discuss our lives. It's vital that our managers understand that," he says.

Building on Comfort

Travels and training come together on Olive Garden's menus. "We're taking a buildingblock approach to familiarizing our American audience to more-distinctive Italian items," Ellis says.

Building on America's comfort level with chicken, for example, it made sense to use the protein as the base for Italian ingredients new to many guests. Venetian Apricot Chicken, for example, features grilled chicken breasts in a sweet and sour apricot-citrus sauce. The sauce, explains Lafata, derives from medieval Venetian fruit sauce recipes. "But getting it just right for the American palate took a lot of development," he says. "We didn't want to end up with something that tasted like apricot marmalade."

Likewise, Olive Garden used chicken as the nonthreatening vehicle for its introduction of gnocchi, a Veronese specialty. Chef Tagliaferro, a Verona native, drew on years of training to develop Chicken and Gnocchi Veronese. "In Italy, it's a celebration dish," he says. "We used that as inspiration."

Olive Garden adds three or four new

26

Spicy Mango · Chipotle Pineapple

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> items to the core menu each year. In addition, items with a more seasonal slant are featured as limited-time offers. Examples include Olive Garden's summery Sicilian Grilled Shrimp, which ran in July, and October's cooler-weather Chicken Florentine and Asiago Chicken promo.

Besting Benchmarks

For any item to make it onto the menu, it must meet a variety of benchmarks for guest and operator satisfaction. "The aim is not only for an item to do well, but for it to raise overall satisfaction levels," Ellis says. Since adding the CIT, Olive Garden reports that guest-satisfaction scores have improved every year.

Once the decision's been made to launch a new dish, Olive Garden creates training aids such as photos and printed materials to support the launch. Two culinary trainers for each of Olive Garden's seven divisions conduct an all-day training session for the directors of operations in each division, along with their chosen culinary managers. These culinary managers then train the rest of the culinary managers in the region. Next, managers in each restaurant meet to learn the new recipes and discuss their rollout. The remainder of the culinary and service staff is trained on the dishes during restaurant-skill sessions.

Finally, one week before launch, dishes are "whiteboarded," or offered to guests without being on the printed menu, giving teams time to remove any kinks from production prior to the official launch date.



Even if all goes smoothly through launch, chefs may continue to tweak and enhance items after they're introduced to help operationally and with taste. Early versions of the Chicken and Gnocchi Veronese, for example, included grilled chicken. "But we found that sauteing the chicken made it possible to more consistently deliver the best dish with the most flavor," Lafata says.

Ensuring that the menu doesn't get too ungainly, lower-selling or redundant items come off the menu when new dishes come on. That meant Chicken Gardeno, Chicken Vino Bianco and Mediterranean Shrimp Scampi were removed when Olive Garden launched its new core menu in July.

While Olive Garden will not say what's coming to menus next, CIT graduates say they'll continue to reference what they learned in Italy. "I've put a much bigger focus on following recipes the way we were shown in Italy to ensure consistency and better flavor," says Jenifer French, general manager in Tyler, Texas. "I also want to make sure my guests feel as welcomed as I did at the restaurants I visited there."

Jim Beltz, general manager of an Olive Garden in Des Moines, Iowa, agrees. "The biggest thing I brought back was the ability to explain to the culinary team why we do things the way we do them," he says. "That, and reaching out to my guests with the same warmth that proprietors there extended to me."

Q: How do you prevent Cross Contamination before it happens?

Shrimp and Asparagus Risotto was one of two entrees Olive Garden used to debut risotto.

Toasted ciabatta slices are the traditional match for Bruschetta, chopped roma tomatoes, fresh basil and extra virgin olive oil.



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SNAPSHOT

Concept Extreme Pita **Headquarters** Mississauga, Ontario, Canada

Units 178 in Canada, 26 in United States

2007 Systemwide Sales \$52 million (company estimate)

Average Check \$7.50 Average Unit Volume \$400,000*

Expansion Plans 500 stores, with 160 in the United States, by 2010 **Chain Leader* estimate

Closer to HOME

Canada-based Extreme Pita opens offices in Denver and Scottsdale, Ariz., to get closer to **U.S. FRANCHISEES**.

By Lisa Bertagnoli

SH TOSSED Salads

ith headquarters in Ontario, Canada, Extreme Pita, a 204-unit chain offering pita sandwiches, pizzas and salads, is set to expand on its home turf. And, since opening offices in Scottsdale, Ariz., and Denver, the QSR is ready to expand more aggressively in the United States as well.

Opening the U.S. offices and hiring a vice president of U.S. franchise development will help Extreme Pita be more effective in helping franchisees, plus help the chain more successfully navigate the U.S. market, says Alex Rechichi, co-founder and president.

"We were not oblivious to the fact that there are some market differences between the U.S. and Canada," Rechichi says. Among those differences: a more competitive franchise market and a public with a penchant for lively flavors.

A Call for Help

Extreme Pita had been operating in the United States for more than two years and had opened eight stores before hiring Vice President of Development Nick Schaefer to head U.S. operations in Denver. Extreme Pita "was in place and doing OK, but they needed a strategy in the United States...somebody to develop relationships," says Schaefer, who came to Extreme Pita from Denver-based Quiznos, where he was vice president of nontraditional locations. Extreme Pita hopes to have 500 units systemwide, with 160 of those in the United States, by 2010.

ranchise management

The chain was not without a U.S. presence before hiring Schaefer. In June 2006, Rechichi hired Director of U.S. Operations Garth Moore and installed him in an office in Scottsdale, Ariz., two years after Extreme Pita opened its first U.S. store in Southern California. Before then, area developers were handling store openings, real estate and other matters, according to Schaefer.

Today, Moore oversees day-to-day operations, such as grand openings, while Schaefer attends to strategic matters, such as finding area developers and new markets.

Hiring Schaefer wasn't exactly an afterthought, but it wasn't precisely planned, either. "It didn't make economic sense for us to put significant resources in place until we

The average Extreme Pita store is 1,100 to 1,300 square feet, with 30 seats and an open kitchen.

The U.S. market is more competitive than Canada for real estate as well as for courting franchisees.

franchise management

Extreme Pita co-founder and President Alex Rechichi traveled weekly to the United States before opening the Scottsdale, Ariz., office. The U.S. office has enabled him to cut travel to monthly or quarterly trips.



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New textured cool-to-the-touch finish will keep foods hot longer than standard microwave safe packaging and provide a safer, non-slip grip. Having a U.S. office will help Extreme Pita expand to 160 stores here by 2010.

gained critical mass and gained momentum," Rechichi explains.

Rechichi also thought that a U.S. office wasn't a dire necessity. "We initially thought we could manage area developers from here," he says.

That is, until the American franchisees and area developers requested an office closer to home. "There was a call from the field to embed some management in the United States, not just for their sake, but for a comfort level," he says. While Rechichi says Extreme Pita was always invested in and dedicated to U.S. expansion, an office helped the chain prove it.

Opening the U.S. office is "very good, a smart strategy," says Dan Rowe, president of Fransmart, an Alexandria, Va.-based franchise-development firm. As for the wait, "I think that's normal," Rowe says. "My hat's off to them that they didn't wait four to five years. They saw the need."

Geographically Desirable

Extreme Pita soon saw the benefits of the Denver office. Schaefer was better able to communicate with area developers and franchisees with store-opening and supply issues simply because he was closer.

"It's good to have an orchestrator," says Ray Zandi, an Extreme Pita area developer whose territory includes Northern California. Zandi signed on as an area developer two years ago and has three stores open.

Before Schaefer, "franchisees would call the Canadian office, and there was nobody to field that call and direct it to the right area developer," Zandi says. Now Schaefer vets and routes franchise leads, and handles Extreme Pita's corporate markets.

Schaefer also handles nontraditional markets for Extreme Pita. "That's been a huge help," Zandi says. "As he obtains these nontraditional locations, that brings attention to the brand."

Back in Canada, Schaefer's presence permits Rechichi and his team to focus on

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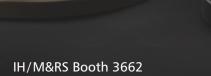
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franchise management

Extreme Pita's U.S. development office helps franchisees find real estate, architects, vendors and other restaurant necessities.



LOCATION

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ACCESSIBILITY

Extreme Pita will add a few menu items such as a Buffalo-flavored or Southwestern-flavored sandwich to cater to American tastes.

long-term development for the entire chain, rather than franchising matters, Rechichi says. Schaefer has also helped

the Canadian team cut back on travel. Prior to Schaefer's hiring, Rechichi and other executives would have to fly to the United States weekly to scout locations and attend to other matters. Now the team flies to the U.S. monthly and quarterly.

Here Versus There

An American executive with restaurant experience will also help Extreme Pita handle some of the differences between the U.S. and Canadian markets. For instance, the U.S. franchise and real estate markets are much more competitive, Schaefer says.

The average Extreme Pita ranges in size from 1,100 to 1,300 square feet, with about 30 seats. The stores cost between \$215,000 and \$250,000 to open.

To court franchisees and area developers, Extreme Pita has altered its master franchisee model for the United States. The new model calls for a \$75,000 flat fee instead of a fee of \$5,000 per store, no small step because 50 is the minimum store figure for an area developer. The new model also allows area developers to opt out of opening a store, if their restaurant experience permits; in exchange, they get a smaller cut of royalties (40 percent compared to 60 percent in the original deal). The lower up-front costs "keeps more of the money in the developer's pocket, so they'll develop the area faster," Schaefer says. Not having to open and run a restaurant also allows area developers to devote more time to developing their markets.

Schaefer is also tinkering with the menu to add a few popular American flavors, such as a Buffalo- or Southwestern-flavored sandwich. "The American restaurant business is a little more demanding, and customers are more demanding of a broader taste profile," he says.

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IHOP CEO JULIA STEWART'S rapid rise through the ranks has prepared her to take on Applebee's.

FULL Circle

IHOP Corp. Chairman and CEO Julia Stewart's steady climb through the ranks has made her one of a few industry women to reach the top job of a large company.

In June IHOP management agreed to pay \$2.1 billion for Applebee's International, a deal scheduled to be consummated by the end of the year.

cover story



By David Farkas

ad Zane Tankel been able to attend an Applebee's franchisee meeting in Naples, Fla., in October, instead of traveling to Argentina on business, he was going to ask IHOP CEO Julia A. Stewart if she planned on launching a new marketing campaign at the struggling bar-and-grill chain.

Glendale, Calif.-based IHOP announced in June it would acquire Applebee's International for \$2.1 billion subject to shareholder approval.

Nevermind that Applebee's officials were boasting that their new advertising agency, McCann Erickson, was primed to launch a campaign that was "iconic, ownable, extendable and breakthrough."

It didn't seem to matter to Tankel, who operates 26 Applebee's in New York's five boroughs. "When [Stewart] was running Applebee's, she took us straight from print to broadcast, and it made a world of difference," he says, referring to Stewart's four-year stint in the late '90s at the Overland, Kan.based chain. "She has always been a brilliant marketer."

Such high praise typically attaches itself to Stewart's efforts, most recently in the case of the once-beleaguered IHOP itself. The 52-year-old executive arrived at IHOP in December 2001, a year after she departed Applebee's. Since then, she has led a dramatic turnaround that has changed the franchise model, updated the menu and boosted morale among franchisees.

"Without question she has reinvigorated franchisees," declares Natchez, Miss.-based franchisee David Paradise, who operates 12 IHOPs and 11 Applebee's. "She is very strong on visualizing where we need to go and then aggressively getting us there."

Star Quality

Winner of this year's Chain Leadership award, one of three Execution Awards *Chain Leader* presented in October, Stewart seems keenly aware of her strengths. Asked who might play her if a movie were made of her life, Stewart answers Renee Russo. "She's a strong, smart, sassy leading lady and she's genuine," she says of the 53-year-old actress and former model.

The adjectives fit Stewart like a glove, acknowledge friends and former associates, and they help explain her string of successful ventures in the restaurant business after graduating from San Diego State University in 1977.

Leisure and entertainment consultant Roberta Perry, who has known Stewart since the 1980s when the two regularly attended Marketing Executive Group meetings, says Stewart "has always taken care of people and never walked over anyone" on her climb up the corporate ladder. "I've always admired her for that," she declares.

Stewart came to national attention in the mid-'80s after spiking the sales needle at then-moribund Stuart Anderson's Black Angus, a chain of midpriced steakhouses. Her modus operandi: a return-to-basics strategy that featured an endearing spokesman and focused on beef.

"We had gotten away from what

BIOGRAPHY

Full Name Julia A. Stewart Hometown San Diego Education B.S., Communications, San Diego State University, 1977

Ladder-climbing Various marketing positions with Carl's Jr., Burger King, Spoons Bar & Grill, Stuart Anderson's Black Angus; Taco Bell, western region vice president of operations; Applebee's International, president, domestic division, 1996-2000; IHOP Corp., president, chief executive officer and chairman, 2001-present

On Her Nightstand *The Janitor* by Todd Hopkins and Ray Hilbert, and *Love and Profit: The Art of Caring Leadership* by James Autry

Hobbies, Interests Travel, snow skiing, wines, entertaining Personal Recently married to filmmaker Tim Ortman; two children from a previous marriage

Portrait by Mark Robert Halper

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"My father had an incredible influence on me from a young age because he told me I could be anything I wanted to be."

—IHOP CEO Julia Stewart

made us famous," Stewart recalls, adding she got plenty of leeway from Charlie Lynch, CEO of parent company Saga. "He told me, 'Go do what needs to be done."

Her efforts paid off. By the time she left the steakhouse chain to join Taco Bell in 1991, she was overseeing marketing, purchasing and development.

"Julia was an excellent leader, and she always enjoyed her staff and exposed us to the expertise of others," says culinary con-

CLAY DOVER, Protégé Award Winner

A manual labor job during college convinced Clay Dover that the restaurant business was his future.

"When I put a drill bit through my finger, I realized that maybe a couple of burns weren't so bad," says the chief concept officer for Metromedia Restaurant Group, who had worked for Bob's Big Boy while in high school.

Today the 36-year-old California native, who rose through the marketing ranks at Chili's and Houlihan's, is creating new restaurant concepts while trying to resurrect "heritage brands" Bennigan's, Steak & Ale, Ponderosa and Bonanza.

In the case of Bennigan's, this year Dover introduced Bennigan's Sport, a casual concept that features large-screen screen TVs, 20 tap beers and a line of pizzas baked in a wood-fired oven. Sustainable sales have climbed about 7 percent at remodeled units, he says.

Dover is also reinvigorating Ponderosa with a remodel in St. Louis. He's getting ready to launch a strategic plan for Steak & Ale. And MRG's new fast-casual restaurant, Bennigan's Quick Grille, a slick looking, 2,600square-foot restaurant featuring field stone, dark woods and a fireplace,

launches in Dallas next year. "What I enjoy here in my role is that I can affect any part of our business," he declares.

Dover, however, is careful not to let passions run too high. "It's very easy to get distracted by the shiny new toy," he says. "I still have 299 other [Bennigan's] paying the bills, and they need to continue to perform."





sultant and close friend Karen Gorrell, who reported to Stewart at Stuart Anderson's.

"I made friends for a lifetime there," Stewart says, recalling the condo she rented for a three-day planning session where everyone took turns preparing meals. "It was so much fun and such great magic. How many times in your career do you have that magic?"

Rising to the Top

Many, it appears. Stewart, for instance, sped through PepsiCo's prestigious Advanced Management Recruits program after joining Taco Bell, though she spent her first six months in store operations.

That's where Bill Floyd, then the chain's vice president for operations and Stewart's immediate supervisor, spotted her leadership skills. "We used to say that an important determinant of success [in the program] was whether the crew adopted these people and saw them as someone who connected with them and empathized," he explains. "Julia fit that to a T."

After that, Stewart says, "I kept getting promoted."

By the end of her tenure at Taco Bell, she was vice president of operations for the chain's Western region, which comprised more than 1,000 units. "Franchisees looked to her as a leader," Floyd says.

Karen Eadon, senior vice president of marketing at Applebee's during Stewart's tenure there as president, remembers her boss as a "strong leader" who often invited opinions before making strategic decisions. "Julia was very open to divergent points of view and to vigorous discussion that would allow her to see all sides," says Eadon, now chief marketing officer for El Pollo Loco.

Eadon adds that Stewart wanted to improve the entire Applebee's system and focused her efforts on improving food quality and marketing, which went from tactical to strategic. A new tagline-"Eating Good in

Stewart's boldest move at IHOP was changing the franchisee model, which allowed franchisees to use their own equity to open units.

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"I could work 80 or 90 hours a week in my 20s and 30s. I didn't have a family until late in life." —*IHOP CEO Julia Stewart*



the Neighborhood"—neatly captured the brand's essence.

"Julia moved the [sales] needle," Tankel remembers. Systemwide same-store sales were rising at the end of Stewart's tenure, from 1.7 percent in 2000 to 3.2 percent in '02.

"Applebee's was such a compelling story," recalls investment banker Allan Hickok, then a restaurant analyst at Piper Jaffray. Eadon and others say

Stewart is always quick to

show colleagues her appreciation for their work. "Let's say someone had pulled together a presentation; the next day there'd be a thank-you note from her or flowers on the desk," Eadon remembers. "To me, she is a role model in how she shows appreciation for even the smallest things."

Next Up: CEO

Stewart, meanwhile, was anxious for one big thing to happen: being appointed Applebee's CEO, which she believed had been promised to her when she joined the company in 1996. She was given "a couple years" to demonstrate her capabilities.

"I went into [CEO Lloyd Hill's] office one day and said, 'It's been three years. It's time," she remembers. "He said, 'Nah, I don't think so.' And I said, 'Then it was probably best to leave."

Hill did not return calls seeking comment. Stewart landed the president's job at IHOP Corp. in 2001 and was promoted to CEO shortly thereafter. Her boldest move was changing the franchise model, which allowed franchisees to use their own equity to open an IHOP restaurant. "The franchisee today develops their own units. They have a greater investment in it. They have greater opportunity to make more money," offers Bob Leonard, a veteran franchisee and chair-

Julia Stewart reinvigorated the IHOP brand with a careful marketing strategy that emphasized a slew of tasty new products.

S. TRUETT CATHY, Legend Award Winner

Lots of entrepreneurs claim a passion for their business lead to their success. Not S. Truett Cathy, chairman and founder of 1,300-unit Chick-fil-A, which surpassed \$2 billion in sales in 2006.

The 86-year-old businessman, who ranks No. 380 on *Forbes* list of the 400 wealthiest Americans this year and is worth \$1.3 billion, advises, "Don't get overexcited by what you are doing." Reason: You're likely to borrow yourself into debt.

Cathy, a high-school graduate, learned that lesson early. His family struggled during the Great Depression, making ends meet by taking boarders into their home. Necessity proved to be mother of invention: By the time Cathy—who prepared meals, sold beverages and delivered papers—was in his 20s, he was already in the restaurant business.

Cathy says he keeps a sign in his office that shows a man wearing a suit and tie tethered to the side of a mountain with safety ropes. "The caption reads, 'With care and confidence, no goal is too high.' That's what I remind our people here," he explains. "Let's not be bombarded with debt and sleepless nights wondering how you're going to make payments."

Indeed, Cathy, author of four books including two autobiographies, is penning another about how he got rich. Working title: *How Did You Do It, Truett?*



Fast forward to present. At press time, Stewart won't discuss the impending transaction,

man of IHOP's advi-

sorv board.

likely because several large Applebee's shareholders have said they will vote against the merger on Oct. 30.

Meanwhile, "we are moving ahead as we should be," Stewart declares.

It pleases Tankel: "I'm not sure I would be that happy [with the merger] if it weren't Julia Stewart in charge. I am really happy about Julia."

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human assets



Wingstop's Principles & Beliefs document represents a year's worth of research and thought.

Wingstop executives hope Principles & Beliefs will positively affect all customers, from vendors to diners.

ingstop had 90 restaurants when present management bought the concept from founder Antonio Swad of Pizza Patron fame in 2003.

The Richardson, Texas-based concept, which offers wings and other snacks in a small, quick-service setting, now numbers 315 units, with 75 new units planned for 2008. The chain has posted 17 consecutive quarters of positive growth, says Chief Operating Officer Bill Knight.

With that growth and success in mind, Knight and other Wingstop executives decided they needed to capture the chain's culture on paper—before it was too late. The result is Principles & Beliefs, a 39-page booklet unveiled at a company luncheon on Oct. 25.

"We wanted to maintain the things that were good about the company when it was small," says Knight, who got the idea for Principles & Beliefs a year ago, after reading a *Harvard Business Review* article on Outback Steakhouse, which is known for its culture. "I've always been a big fan of Outback."

48 Statements

Knight started the process by purchasing Cultural Compass, a workplace survey that he found on the Internet. The survey, written by a psychologist, contains 48 statements covering topics ranging from a company's public image to the way executives interact with staff. One example: "The physical work environment is pleasant and clean." Another: "Management strictly limits and controls idle time."

Knight asked 55 employees, from top managers in each corporate department to company-store managers, to complete the survey, in which they assessed Wingstop's performance on each statement on a scale of 1 (worst) to 10 (best). Employees' answers were kept anonymous.

SNAPSHOT

Concept Wingstop Headquarters Richardson, Texas Units 315 2007 Systemwide Sales \$200 million (company estimate) Average Check \$12 Average Unit Volume \$700,000 Expansion Plans

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human assets

New corporate employees will be expected to read Principles & Beliefs and sign a statement promising to abide by its contents.



Wingstop hopes that codifying its ethics will preserve the company's entrepreneurial spirit as it grows.

Employees responded well to participating in the survey. "It was not created by senior management and pushed down," Knight explains. "It was truly a collaborative effort."

According to Paula Kercheval, director of human resources and administrative service, it's not surprising that the company went to the trouble to conduct the survey. "It really went with standard practice in terms of the way this company operates," she says.

Mixed Results

The results were hardly positive across the board. While Wingstop scored high on ethics and morale, it didn't fare as well in other areas. The company, for instance, scored low on the statement concerning idle time as well as training and education.

Management viewed those negatives as an opportunity. "This means people want to be accountable for their results...they want to be measured," Knight says. "Feedback is the breakfast of champions."

The survey results, he adds, created quite a bit of water-cooler conversation at headquarters. "I think some departments and I won't go into what—were happier than others," he says. "Certain employees had a different view than others."

Says Kercheval: "We saw the opportunities that were there and the places we could improve." Management, she adds, didn't edit the survey results. "They took everything we said," Kercheval says.

Employees had a chance to discuss their differences during a day-long workshop, during which they examined the survey results and condensed them into a group of beliefs that define Wingstop and its corporate culture. "It was definitely not easy," Knight says of the process. "You get into a touchy-feely kind of thing, and I'm not a touchy-feely kind of guy."





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Survey results, not uniformly positive, caused quite a bit of water-cooler talk at Wingstop headquarters.



Knight also says it was a challenge to work on the booklet and keep day-to-day operations running smoothly. "We had our moments," he says.

Words into Action

The result of the year-long survey and compilation process is a 39-page booklet called Principles & Beliefs. It codifies Wingstop's ethics and approach to its business and people.

The company plans to send the booklet to vendors and franchisees. New corporate employees will be expected to read it and sign a statement promising to abide by its contents. The document will also be part of training for new employees, according to Knight. And, he adds, the company will review and enhance the booklet over time. "We'll look at it on a regular basis," he says.

Knight expects both tangible and intangible results. "We believe the company will be more profitable and have better results," because the document, in part, emphasizes Wingstop's goal to be "an environment where people want to work," he says.

Knight admits that Principles & Beliefs is only words on paper unless it's "brought to life." So the company held a meeting in mid-October to choose a national charity, one that employees and customers could support with monetary donations as well as time.

Such documents must be aggressively promoted to be worth more than the paper they're printed on, according to David Mansbach of HVS Executive Search, a hospitality recruiting firm based in Mineola, N.Y. "They need to have ambassadors of this program, to promote it religiously," he says.

"Corporate culture is not something to be taken lightly," Mansbach adds. "Just to write about something and send it out is not enough."

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Franchise Developer

Creating Brand Ambassadors

ave Feamster, owner of the Little Caesars Pizza franchise in Pueblo, Colo., answers virtually every charity request from organizations in his community—with coupon books, not cash. A charity sells coupons and pockets the proceeds, and while many purchasers use the coupons, not all do. The coupons create goodwill while exposing more people to Feamster's five Little Caesars units.

Franshisee Bill Welter wanted to forge a bond with parents in Las Vegas neighborhoods where his 10 Buffalo Wild Wings units operate. So he offered a complimentary meal for four as a prize to every "student of the quarter" designated by the local school board. The program boosted interest in academic achievement, and Welter cemented the brand's image as a hero of education among families.

While offering good food, service and value is critical to success, that's not enough when every restaurant competes for the consumer's dining-out dollar, says consultant Jack Mackey, vice president of sales and marketing at Service Management Group in Kansas City, Mo. "What you want in a brand is for people to love you," he says. "You want them to drive past six other places to choose you."

Customers who have good feelings about a restaurant are more likely to spend more of their discretionary income there, return to the restaurant and become volunteer ambassadors of



the brand, Mackey says. "We know from talking to customers that they're twice as likely to return to a restaurant if they're 'highly satisfied' than if they're merely 'satisfied.' Also, highly satisfied customers are three times more likely to recommend you. Forging emotional connections with customers matters because it doubles your repeat business and triples your positive word-of-mouth." Nothing substitutes for a

remarkable dining experience

within the restaurant, Mackey stresses. But sponsoring a local baseball team or a marathon to increase awareness of breast cancer conveys that those who deliver the restaurant experience are good people.

Franchisors and area developers will reap greater benefits by not waiting to reward loyalty. In other words, give first. "The law of reciprocity says when you do nice things for people, they want to give back to you," Mackey says. "For reasons that have nothing to do with quality of food or what people heard about you on the radio, people make a subconscious decision to be good to you because you were good to them."



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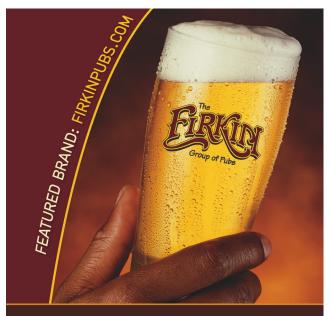
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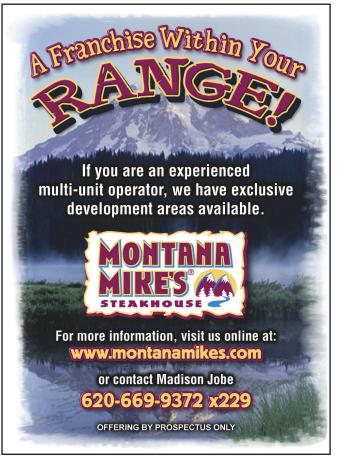
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1. Publication title: Chain Leader. 2. Publication No.: USPS 020-829. 3. Filing date: Oct. 1, 2007. 4. Issue frequency: monthly. 5. No. of issues published annually: 12. 6. Annual subscription price: \$109 in U.S.; \$131 outside U.S. 7. Complete mailing address of known office of publication: Reed Business Information, 8878 S. Barrons Blvd., Highlands Ranch, CO 80129 8. Complete mailing address of headquarters or general business office of publisher: Reed Business Information, Division of Reed Elsevier, Inc., 360 Park Avenue South, New York, NY 10010. 9. Full names and complete mailing addresses of the publisher, editor and managing editor: Publisher Patricia Dailey, Editor Mary Boltz Chapman, Managing Editor Maya Norris, Reed Business Information, 2000 Clearwater Drive, Oak Brook, IL 60523. 10. Owner: Reed Business Information, Division of Reed Elsevier, Inc., 360 Park Avenue South, New York, NY 10010. 11. Known bondholders, mortgagees and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages or other securities: none. 12. Tax status: has not changed during preceding 12 months. 13. Publication: Chain Leader. 14. Issue date for circulation data: September 2007.

15. Extent and nature of circulation:	Average No. Copies Each Issue During Preceding 12 Months	No. Copies of Single Issue Published Nearest to Filing Date
A. Total number of copies (net press run)	18,765	18,233
B. Legitimate paid and/or requested distribution		
 Individual paid/requested subscriptions stated on form 3541 	14,704	14,090
2. Copies requested by employers for distribution to employees		
as stated on form 3541	0	0
Sales through dealers and carriers, street vendors, counter sales		
and other paid or requested distribution outside USPS	26	29
Requested copies distributed by other classes mailed through the USPS	0	0
C. Total paid and/or requested circulation	14,730	14,119
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Nonrequested copies distributed outside the mail	212	250
E. Total nonrequested distribution	2,812	3,185
F. Total distribution	17,542	17,304
G. Copies not distributed	1,224	929
H. Total	18,766	18,233
 Percent paid and/or requested circulation 	83.97%	81.59%

16. Publication of Statement of Ownership: Publication is required and will be printed in the November 2007 issue of this publication. 17. I certify that all information furnished on this form is true and complete. I understand that anyone who furnishes false or misleading information on this form or who omits material or information requested on the form may be subject to criminal sanctions (including fines and imprisonment) and/or civil sanctions (including civil penalties). Simon Young (signed), Group Audience Marketing Director

Statement of Digital Circulation	12-Month	
Publication title: Chain Leader	Average September	
Printed circulation as reported on Form 3526	18,765	18,233
Digital circulation	704	1,023
Total qualified circulation	19,469	19,256

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off the clock

Beneath the SURFACE

Grains of Montana's Tom Wilscam discovers fly-fishing is about more than just catching fish. **By Maya Norris**

Tom Wilscam, partner and director of franchising of four-unit Grains of Montana, took up fly-fishing 20 years ago to spend more time with his sons, David (I.) and T.J. ly-fishing has never come easy to Tom Wilscam. Nevertheless the partner and director of franchising of four-unit bakerycafe Grains of Montana enjoys the sport precisely because it challenges him while letting him spend time with his family.

On the Hook

Wilscam has been fly-fishing for 20 years. He became interested in it because his son, David, 37, was an avid fly-fisherman. When they went on their fishing trips, Wilscam's older son, T.J., 40, and later his wife, Deanna, joined them. "So [Deanna and I] both basically took it up out of a need or a want to do things with our kids," Wilscam says.

Now Wilscam and his wife are hooked. In addition to the annual fly-fishing trips they take with their sons to Utah, Montana and

Canada, Tom and Deanna Wilscam go

fly-fishing two or three times a month in the summer and once a month in the winter along the Platte River near their home in Englewood, Colo.

The sport not only allows Wilscam to hang out with his family, but it also gives him a chance to relax and appreciate the great outdoors. "It's completely mind relaxing. You'll be in the middle of the stream, and you'll look up and there's a deer watching you, or there's a mountain goat standing on the side watching you," he says. "It's just fantastic even if you don't catch any fish."

Catch of the Day

On a good day, Wilscam reels in nine or 10 fish. But it wasn't always so: He didn't catch any fish the first five years he fly-

fished. He only started catching fish after his family bought him private fly-fishing lessons for Father's Day 15 years ago.

And five years ago, Wilscam caught his most prized catch: a five-pound trout. As he walked along the Platte River, he noticed a fish jump out of the water to snag a grasshopper. So he hooked a grasshopper onto his line. The same fish jumped at the bait before the line hit the water. "That one will keep me coming back forever," Wilscam says. "I keep looking forward to getting another one like that."

Whether he catches a fish or not, Wilscam revels in the challenge that fly-fishing offers, which he says involves more than just waiting for a fish to tug on the line. Before he casts his line into the water, he analyzes the area to determine where the fish are swimming and what they're eating.

"Fly-fishing is exciting," Wilscam explains. "You're all the time trying to figure out what bugs are flying around. What are the fish feeding on? Are they rising to the top? Are they feeding deep? We're looking for clear water holes...where they like to sack out during the day. It's definitely a thinking man's sport."

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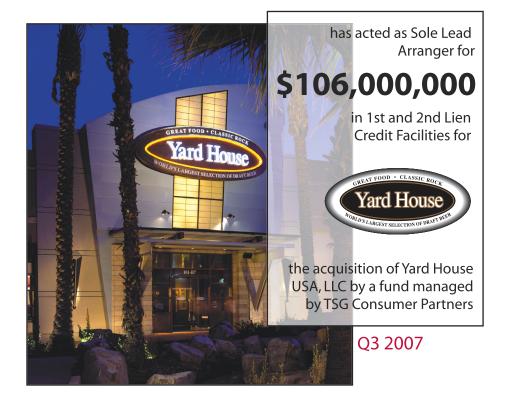
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