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TREND-FORWARD INSIGHTS TO BUILD BRANDS

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with national
impact. PAGE 16

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with a **simple model**.
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Driving TRAFFIC

Exclusive research
shows how restaurant
chains keep customers
coming. PAGE 34

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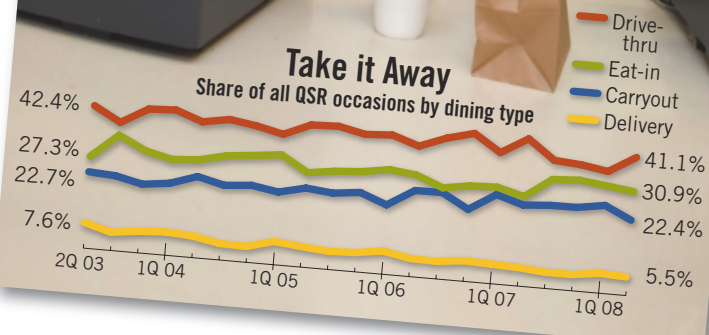
*Nielsen Data, Total U.S. Baked Beans

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Over the COUNTER

Quick-service takeout trends show customers coming in for dinner and deals.

Dinner comprises 54.8 percent of fast-food users' carryout occasions, according to a 21-quarter average from Quick-Track, a quarterly survey by San Clemente, Calif.-based Sandelman & Associates. The evening meal makes up 48.4 percent of all QSR users' most recent purchase occasions. Lunch makes up 39.7 percent of all users' last occasions and 33.9 percent of carryout occasions.



- Guests using carryout on their last visit were more likely than all fast-food users

to take advantage of a limited-time

special: 23.9 percent vs. 19.1 percent. Of carryout customers using a deal, 27.5 percent of them learned about it from newspapers, 27.0 percent from direct-mail fliers, 24.4 percent from signage at the restaurant, and 14.7 percent from television.

- Carryout comprises 23.3 percent of all fast-food occasions, according to a 21-quarter average; drive-thru garners 40.7 percent; eat-in, 30.1 percent; and delivery, 5.8 percent.

- 30.6 percent of customers using carryout on their last occasion had pizza, while 23.1 percent of all users did. Only 14.4 percent of those using carryout bought a hamburger, though national burger chains received 19.7 percent of carryout occasions. Of all users, 23.0 percent had a burger.

- While 28.6 percent of all fast-food users ordered fries on their last occasion, only 18.8 percent of those using carryout did, according to a 21-quarter average.

- 68.5 percent of patrons using carryout had a beverage; 78.4 percent of all QSR customers did.

- The average amount spent per person on their last occasion was virtually the same for all users and those using carryout: \$5.12 for carryout users, \$5.11 for all QSR users.

- A 21-quarter average shows that 33.8 percent of QSR customers using carryout on their last occasion were with their spouse, 26.8 percent were with their children, and 27.9 percent were alone. These figures line up with all users: 29.6 percent were with their spouse; 27.0 percent, with their kids; and 27.5 percent, by themselves. ■

What's in the Bag

Share of all QSR users' past-month purchase occasions, 21-quarter average

■ Burger ■ Pizza ■ Sandwich ■ Chicken
■ Mexican ■ Regional/other

All QSR Occasions
39.6% 17.3% 11.2% 7.7% 6.2% 17.9%

Carryout Occasions
19.7% 28.8% 20.5% 7.4% 3.2% 20.4%

Takeout Dinners

Last purchase occasion, 21-quarter average

■ Breakfast ■ Lunch ■ Dinner ■ Snacks

All QSR Occasions
7.1% 39.7% 48.4% 4.8%

Carryout Occasions
6.1% 33.9% 54.8% 5.2%

Carryout Customer Profile

All quick-service users, second quarter 2008

Demographic Description	Carryout Users	Index vs. All Users
Sex	Male	50.5%
	Female	49.5%
Age	16-17	4.3%
	18-24	14.1%
	25-34	24.4%
	35-44	25.5%
	45-54	20.1%
	55-64	11.7%
Marital Status	Single	33.4%
	Married	58.1%
	Divorced/Separated/Widowed	8.5%

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Mix and Match

From sending an e-mail newsletter to a small group of loyal customers to running new menu specials, restaurant chains are combining different tactics to increase customer counts. *Chain Leader's* exclusive Driving Traffic research.

By Mary Boltz Chapman



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Acting Locally

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By Margaret Littman

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An Apple a Day

Burger King is selling so many of its BK Fresh Apple Fries to both kids and adults that the company is thinking about offering the apples as a substitution for the french fries that normally come with combo meals.

By Monica Rogers

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Varietal Show

Fleming's Prime Steakhouse & Wine Bar makes wine accessible to guests with an extensive by-the-glass wine list it updates every year and a flight program that provides three different tastes.

By Monica Rogers

30 BACK OF THE HOUSE

Hidden Assets

Freshii retooled its display kitchen to partially obscure customers' view. The fast-casual chain added a partition to

the work station and moved the makeup tables to the back wall of the kitchen. Food costs have since dropped 2 percent, and equipment costs have dropped 15 percent.

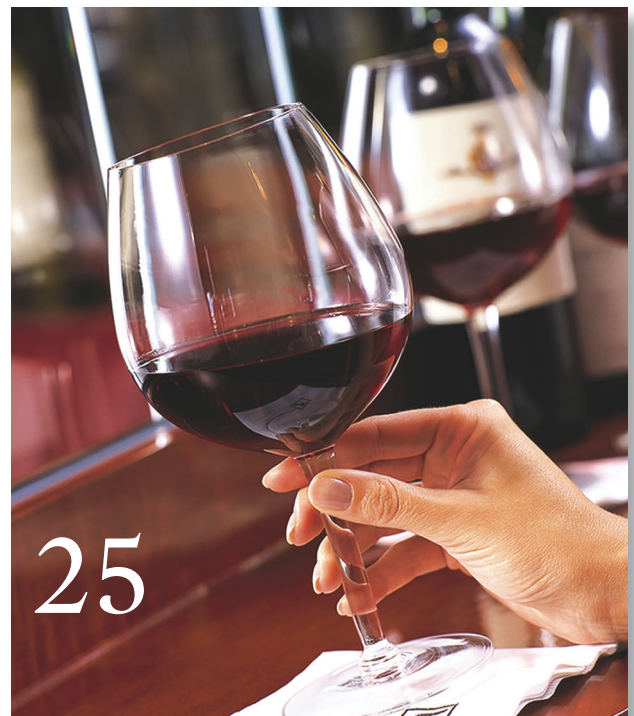
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Sweet Deal

Red Mango is ready to roll out its brand of tart frozen yogurt with a simple and so far profitable business model, veteran executives and expansion in existing markets with educated, active populations.

By David Farkas



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Starting Over

Given the thriving Panamanian economy, franchisee Landmark International Holdings believes the time is right to expand Popeyes Chicken & Biscuits in Panama. To prepare, the company has expanded the menu, implemented motorcycle delivery and launched an image-building campaign.

By David Farkas

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CKE Remains Big, Fat, Sexy



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- James Flynn shares how Wingstop keeps growing sales
- Phil Costner invests in new products at La Madeleine

HOW TO GROW TO 100 UNITS

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- Harry Bond of Monical's Pizza offers tips for retaining managers
- Veteran operator Fred LeFranc's dos and don'ts for riding out an economic storm

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- Daily news

- Franchise opportunities

- Topic-specific pages on marketing, expansion, operations and more

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For the Defense

If I had a nickel for every time I heard or read someone say, “I don’t eat in chains,” I could take you out to a nice dinner at Morton’s. First of all, they are obviously lying or incredibly ignorant. Come on—no Starbucks, no McDonald’s, no Olive Garden, ever? Impossible. And how do they know how horrible restaurant chains are if they don’t ever visit?

Some have this thing against “the man,” the corporate giants who step on the little guy to force their form of business down the throats of decent, hard-working Americans. They have this notion that big equals bad, completely ignoring that big equals

The list is long of restaurant chains that have unique, trend-forward and just plain delicious food on their menu. And I’m confident that restaurant chains played a role in demanding higher quality for those frozen proteins.

Likewise, chain food is not inherently bad for you. Yes, most restaurant chains sell food that has a lot of fat, sugar and salt. Most restaurants do, too, as do supermarkets, convenience stores and Little League concession stands. Most restaurant chains also have choices—and lay them out in detail—for consumers who want them.

“Choice” is the correct word, too. Choice is something restaurants offer, and choose is something customers do. Those

unable to choose have parents to choose for them. Restaurant chains are not responsible for obesity in children. They don’t order kids’ food. Nor did they take recess and gym class out of public

schools, give kids motorized ride-in cars rather than pedal-driven ones, or encourage them to play PS2 rather than soccer.

NOT THE BAD GUY

Restaurant chains also are not responsible for illegal immigration (though there are some scofflaws who take advantage of it) or for keeping low-skilled workers below the poverty line (though some could do a better job of ensuring their employees are paid enough that they don’t have to take advantage of the generous donations they make to food banks). They are responsible for hiring and training America’s teenagers, giving them their first taste of the working world. And for giving individuals with special needs an opportunity to use their skills and giving ex-cons a second chance to build theirs.

My parents taught me to be kind, so I don’t spout all this out when I hear “I don’t eat in chains.” But it sure feels good to get it off my chest. ■

Even some of our own deny they are “chains” but succeed thanks to economies of scale, consistency and brand equity.

powerful, as in able to influence change. They miss the fact that their neighborhood Subway and Applebee’s units are likely owned and run by their neighbors. Not to mention all the people who benefit from working there.

MISUNDERSTOOD MENUS

Others are food snobs. They believe if a menu is replicated place to place, it can’t possibly be as good as one created by a chef who picked the produce and herbs from their own fields that very morning. OK, chain menus aren’t like that, but neither are 99.9 percent of independent restaurants’ menus.

There are mom-and-pops that stock mostly number 10 cans and pre-portioned frozen proteins, and there are chains that purchase organic meat from local purveyors.

BIG ideas

“In the long run, we shape our lives, and we shape ourselves. The process never ends until we die. And the choices we make are ultimately our own responsibility.”

—Eleanor Roosevelt

“Our business practices are no different than those of our competitors, but we are bigger, and thus more visible, so we get more flack.”

—Nike Chairman Phil Knight

“It’s not whether you win or lose, it’s how you place the blame.”

—Oscar Wilde

“Food for all is a necessity. Food should not be a merchandise, to be bought and sold as jewels are bought and sold by those who have the money to buy. Food is a human necessity, like water and air, it should be available.”

—Pearl Buck



Mary Boltz Chapman
Editor-in-Chief



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PUBLISHER: Patricia B. Dailey

EDITOR-IN-CHIEF: Mary Boltz Chapman

MANAGING EDITOR: Maya Norris

SENIOR EDITOR: David Farkas

SENIOR ART DIRECTOR: Ala Ennes

PRODUCTION ARTIST: Krystina S. Kliman

CONTRIBUTING EDITORS: Lisa Bertagnoli, Margaret Littman, Monica Rogers

CHIEF EXECUTIVE OFFICER: Tad Smith

CHIEF FINANCIAL OFFICER: John Poulin

PRESIDENT, CHICAGO DIVISION: Jeff Greisch

VICE PRESIDENT/PUBLISHING DIRECTOR,

FOODSERVICE & HOSPITALITY GROUP: Steven Rourke

ASSOCIATE PUBLISHER, DIRECTOR OF SALES: Ray Herrmann

REGIONAL ADVERTISING SALES MANAGERS

SOUTH/SOUTHEAST

Jeff Christerson (678) 461-4063

CALIFORNIA/SOUTHWEST/MOUNTAIN

Darrell Dal Pozzo (630) 288-8817

NEW ENGLAND/MID-ATLANTIC

Rich Zelvin (630) 288-8226

INSIDE SALES/CLASSIFIED

Jim McMurray (630) 288-8467

PUBLISHING SUPPORT: Linda Wojak (630) 288-8201

DIRECTOR OF MARKETING AND

CUSTOM PUBLISHING: Rebecca Schneiderman

MANAGER, INTEGRATED COMMUNICATIONS: Vicki Staffeldt

RESEARCH DIRECTOR: Terri Solomon

DIRECTOR OF AUDIENCE MARKETING: Kati Tucker

PRODUCTION MANAGER: Victoria Jones

CUSTOMER CONTRACT COORDINATOR: Joanne Westphal

GRAPHIC PRODUCTION MANAGER: Rick Lesser

DIRECTOR, ELECTRONIC MEDIA: Patrick Mardian

ELECTRONIC MEDIA SALES MANAGER: Darrell Dal Pozzo

INTERACTIVE MEDIA PRODUCER: Gregory Sokolowski

HOW TO REACH **CHAIN LEADER**

PHONE: (630) 288-8201 **FAX:** (630) 288-8215

E-MAIL: ChainLeader@reedbusiness.com

INTERNET: www.chainleader.com

WRITE: *Chain Leader*, Reader Services

2000 Clearwater Drive, Oak Brook, IL 60523

TO SUBSCRIBE OR CHANGE ADDRESS

PHONE: (800) 446-6551 or (303) 470-4445 **FAX:** (303) 470-4280

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PHONE: (800) 290-5460, ext. 176

E-MAIL: chainleader@theygsgroup.com

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Capital markets expert Allan Hickok explains why chains are busting loan covenants.

Breaking the RULES



“Expecting a more hospitable lending environment? I believe it will be a while.”

—Allan Hickok

As operating performance declines and prime costs rise, a growing number of chains are breaking lender covenants. *Chain Leader* recently asked Allan Hickok, managing director for investment bank Houlihan Lokey in Minneapolis, to explain this worrying trend.

Are these covenant problems an example of your maxim that when the going gets tough...

Yes, the weak get weaker. I doubt that any chain projected systemic erosion of restaurant-level profitability in their financial forecasts. The profit compression from weak traffic and hyper-inflated prime operating costs has squeezed the income statement and strained the balance sheet for many chains. Weak industry fundamentals will persist, and we are relearning that leverage cuts both ways.

You're not suggesting that leverage is a bad thing?

Leverage is a legitimate means of capitalizing a business and a tool used to increase shareholder returns. Several chains are or are about to encounter financial distress due to elevated debt levels and the liquidity constraints that can place upon the business. I am referring to debt as a multiple of EBITDA, and once that exceeds 5 times or 6 times, the company is considered highly levered.

And debt was attractive and widely available?

Yes, it was, before the credit crunch. Even if you weren't highly levered two years ago, you may be today due to a lower level of profitability. It doesn't really matter how strong your concept is, how smart or hard you're working, you're earning less money than before.

That's changing the way lenders view borrowers.

Lender risk profiles have changed significantly. It is hard to think about dependably obtain-

ing debt financing with an all-in leverage ratio north of 3.5 times to 4.0 times today, compared to 5 times to 6 times a couple years ago.

Is that true across the board?

If there are more lenient lenders, please call me. Lenders have tightened lending standards because industry stress increases the number of troubled credits in their portfolio. The evidence is conclusive. Most chain concepts have flattish to negative year-over-year profit comparisons. This is created by the significant de-leveraging of the restaurant-level P&L. In other words, the efficiency with which you turn a dollar of sales into cash has been compromised in a pretty severe way.

Since traffic skids and costs rise...

Unfortunately. Operators do not have the pricing power to offset negative traffic with price increases, which is de-leveraging in its own right. Stir in the significant increase in prime costs, and profits can pull a disappearing act.

That's bad news for the debt burdened.

Well, yes, if you are in danger of violating your debt covenants, which are designed to protect lenders by maintaining established fixed-charge, profitability and leverage ratios. It gets complicated when companies supplement conventional bank financing with other debt instruments such as notes, bonds or subordinated debt.

What might happen in that case?

It is a more complicated capital structure that often will have cross-default provisions. So if you bust a covenant on one loan, you may trip covenants in others. You then have many constituencies to deal with if you seek an amendment. More importantly, you can't easily refinance your way out like you could a couple years ago. ■

IN THE WORKS: Hickok believes aggressive lending practices will reappear when fundamentals improve after 2009.

Seating Satisfaction

Technology from QSR Automations streamlines reservations and wait times at Claim Jumper.

Many popular restaurants still rely on laminated floor plans with a grease pencil and a date book for table management and reservations. These methods require know-how and experience at the hostess stand, and often result in errors in wait time estimates and overbooking. Even with well-trained employees, such operational inefficiencies can result in dissatisfied guests.

Claim Jumper Restaurants, a 46-unit (and growing) business, now relies on a technology solution to eliminate guessing and maximize efficiencies. Claim Jumper's solution comes from QSR Automations and includes ConnectSmart Hostess for seating and wait list management, ConnectSmart WebAhead to enable guests to enter the wait list via the Internet, ConnectSmart Reservations, and ConnectSmart WebReserve for online reservations.



Wait times at high-volume, large-footprint Claim Jumper restaurants traditionally ran 30 to 90 minutes. A hostess, along with one or more seaters, had to regularly walk through the dining room with scrap paper and return to the hostess stand to update table statuses on a messy grease board. Ted Stathakis, Claim Jumper's vice president of technology, says the paper method worked well but it took a significant amount of experience to accurately guess wait times based on a formula involving number of guests in the restaurant, party sizes, day of the week and time of day.

"We're extremely excited that we're past all that, thanks to QSR's ConnectSmart table management solutions," says Stathakis. "The system now estimates wait times for the hostess based on criteria that we have defined coupled with real-time activities in the restaurant. What's more, guests aren't seated at a table that's still being bussed, and guests who waited for a table aren't pondering the empty ones as they are being seated."

Stathakis adds, "We are seeing higher guest satisfaction from more accurate wait times—and less guests walking away because we aren't quoting excessive wait times. And all of the added efficiencies have really improved our table turns."

Knowing that there is an entire guest demographic that refuses to wait very long for a table or will only go where reservations are available, Claim Jumper also added reservations and online bookings to its guest services. "With QSR's solutions, we can now make even more guests even more satisfied," says Stathakis. "Our guests can choose to walk in to our restaurant and either be quickly seated or be quoted an accurate wait time. Or they can call us for the same day or a future day, or go on the Web to get their spot on the wait list or to make a reservation."

Says Stathakis, "So now we have these wonderful tools from QSR to improve our business processes and expand the services we can offer. Plus, the information we can collect on our guests and our operations is really exciting."

Claim Jumper managers and corporate team members all benefit from the solution's data-capture and reporting capabilities. For instance, a manager will know right away if there is a variance in quoted wait times versus actual wait times and can take immediate action, while corporate can use the same information to adjust

wait time calculations overall.

"Not even mentioning that the technology base behind the product is fantastic, the solution is easy to install and easy to use," says Stathakis. "We pre-stage the hardware, drop ship it to the restaurant for the installer, send out an area supervisor to provide training in the morning, and we're live by lunch."

All Claim Jumper restaurants are scheduled to complete their installations by the end of this year, and exploring QSR's kitchen automation technology is next on the horizon. With QSR's ConnectSmart Kitchen (CSK) graphical software, stress is reduced and food quality is enhanced. Each item within an order is routed to a specific kitchen station for preparation based on the cook times of all items within an order, ensuring that all items complete at the same time. The CSK also offers graphical menu cards and web-based access in the kitchen.

"The potential for business intelligence is amazing, especially when we can start using data from the front of house along with our production information in our analyses," Stathakis says, adding that Claim Jumper hopes to begin CSK testing in the coming months. "With QSR's ConnectSmart, we'll be able to tell how much large parties truly need to add to our wait time estimates, how the kitchen can improve food production and even if our menu mix is too heavy on certain items."

Concludes Stathakis, "In an industry where same-store sales are down for almost everyone, we still have guests who are willing to wait to dine, and the addition of QSR's ConnectSmart technology is going straight to helping us enhance the entire dining experience we can offer."

"We are seeing higher guest satisfaction from more accurate wait times. And all of the added efficiencies have really improved our table turns."

— Ted Stathakis,
Claim Jumper

WORLD VIEW

ZED451 evolves from Brazilian churrascaria into an international steakhouse focusing on the guest experience.

ZED451 has broken away from its Brazilian churrascaria roots in favor of a concept that focuses on international flavors and guest-focused hospitality. The three-unit steakhouse chain hopes the makeover will position it for national expansion.

In 2005, Emeryville, Calif.-based Tavistock Restaurants bought Sal & Carvao, a Brazilian steakhouse with three units in Illinois. But it soon realized the

of meat, fish and poultry cooked over a fire pit as well as items from the salad bar, which ZED calls the Harvest Table. Instead of servers dressed in gaucho outfits, chefs clad in chefs' whites now present and carve the proteins tableside.

The menu now features global flavors and has been expanded to include poultry and fish. Popular items include Citrus Salmon, Buttermilk Marinated Bottom Sirloin and Mediterranean Chicken Breast. The Harvest Table features seasonal soups, breads, artisanal cheeses, charcuterie, spreads and side dishes such as Steamed Baby Bok Choy with a sweet orange and chili glaze. Guests can order the salad bar only for \$26.

"It's a superior guest experience," says COO Daniel Harf. "They get to control the pace and the portion. It's that unlimited sampling. That sense of adventure."

Although ZED debuted in 2007 in Downers Grove and Schaumburg, Ill., the Chicago unit, which opened in April, features the prototype the company will use as it expands. The modern, rustic decor includes hickory and walnut floors, a circular fire pit, wood slats on the ceiling and floor-to-ceiling windows.

GUEST FOCUS

Unlike the previous design, which had only a dining room, the new prototype breaks up the space to give guests different dining experiences. For those dining with a big group, the restaurants have communal tables and couches on the rooftop patio. Guests who prefer a more intimate experience may hang out at the cabanas on the patio, circular banquettes or smaller dining tables. For an interactive experience, customers can dine at the chef's counter to talk with the chefs as they cook the food or at the wine bar to learn more about the 75 to 95 varietals on ZED's global wine list and watch the bartenders make ZED's seasonal specialty cocktails.

ZED seeks to enhance the guest experience before and after the meal, too. The staff is trained to act as a concierge by helping customers make reservations at other restaurants, lounges and bars following their meals. The company has a shuttle bus wrapped in ZED advertising to pick up and return guests to their hotels or take them to their next destination.

TRAVEL PLANS

The next step in ZED's evolution is expansion. ZED is looking for urban areas that have locals, businesspeople and tourists. It will open in Boca Raton, Fla., in 2008, Orlando and Scottsdale, Ariz., in 2009, and Boston in 2010. The company expects at least 30 units nationwide in five years. ■



SNAPSHOT

Concept ZED451

Parent Company
Tavistock Restaurants,
Emeryville, Calif.

Units 3

2008 Systemwide Sales
\$32.3 million*

Average Unit Volume
\$10.2 million*

Average Check \$85

Expansion Plans 1 in
2008, 2 in 2009, 1 in 2010

*Chain Leader estimate

red-meat focus and basic salad bar didn't appeal to women and triggered a veto vote. In addition, the segment was becoming crowded with competitors such as Brazzaz and Texas de Brazil. So Tavistock spent two-and-a-half years redeveloping the concept into an international, upscale steakhouse.

STYLE AND SUBSTANCE

ZED451 debuted in June 2007 at the Schaumburg and Downers Grove, Ill., stores and in April at the Chicago unit. The only element the company kept from Sal & Carvao was the prix-fixe menu and service style. For \$49, guests receive unlimited portions

IN THE WORKS: To turn ZED into a worldwide brand, executives regularly scout international sites including Dubai and London.

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Reporting for DUTY

Subway contends with the challenges of opening and operating on military bases to reach its core customers and continue building its brand.

Subway prefers to open units on military bases located in remote areas rather than metropolitan areas, where servicemen and women can easily leave the base to go to Subway's competitors.



Exchange, Marine Corp. Community Services or Coast Guard Exchange negotiates directly with a local franchisee or with Subway, which subfranchises it to a local franchisee. In some cases, the exchange serves as the franchisee. For example, the Army and Air Force Exchange is the owner-operator of 70 locations.

The operator usually opens a unit where the military exchange sees the need. They are located in diverse areas such as gas stations, convenience stores, dining halls, food courts and freestanding buildings. Buildout costs range from \$100,000 to \$1 million depending on the size of the unit and if the space previously housed a restaurant. A traditional Subway averages 1,200 to 1,400 square feet and costs about \$250,000 to \$350,000.

The military has been a useful ally for Subway. By opening units on military bases overseas first, it gives the Milford, Conn.-based sandwich chain a launching pad into civilian locations in countries

such as Germany and South Korea and, more recently, Portugal and Italy. At the same time, it allows the company to extend its brand domestically, too.

But operating within the military's strict, regimented culture has its challenges—something Subway has ample experience dealing with since opening its first military unit more than 20 years ago.

Subway has opened 255 units on military bases since 1986 in the United States and globally including in the United Kingdom and Afghanistan. The QSR has already opened 19 military units this year and will open a dozen more by year-end and 20 to 30 in 2009.

"The military is prime demographic for us," explains Chuck deNicolo, global account manager of new business development. "It's predominantly male. It predominantly skews younger, active and heavy users of our type of product."

The average unit volume for a military unit is 5 percent to 10 percent higher than a traditional store, though the company won't provide exact figures.

PAST THE GATES

To open on a military base, Subway works with the military exchanges, which oversee the retail services on the bases. The Navy Exchange, Army and Air Force

RULES OF ENGAGEMENT

Once the unit is open, operators must find employees who have the skills to thrive in the military culture. Employees go through background checks and physicals. In addition to Subway food-safety training, they must complete the military's food-safety and sanitation training, too. Most importantly, employees have to contend with impatient customers such as high-ranking military personnel, who expect quick, attentive service, deNicolo says.

Subway also has to deal with other stringent operational issues. All suppliers must be approved by the U.S. Department of Agriculture. Some locations require that food products go through a central delivery station, where they are examined for bombs and other weapons. For locations overseas, food either has to be shipped directly from the United States or has to come from local manufacturers approved by the military. And once a food product is open, it must be served within 24 hours; traditional Subway units have a 48-hour window.

Despite the challenges, Subway will continue to expand on military bases. "Not only does it provide more outlets for us to serve sandwiches, serve our food to customers and build our customer base, it's also a way for us to make our men and women in uniform more comfortable where they are," says Public Relations Coordinator Les Winograd. "So it's something we can all be proud of." ■

Units on military bases generate average unit volumes 5 percent to 10 percent higher than traditional Subways.

SNAPSHOT

Concept Subway
Headquarters Milford, Conn.
Units 29,736 worldwide
2007 Systemwide Sales \$11.3 billion
Average Unit Volume \$410,000*
Average Check \$6.50**
Expansion Plans 2,000 in 2008

*R&I/Top 400 estimate;

**Chain Leader estimate

IN THE WORKS: To reduce shipping costs, Subway is working with the military to ship some of its food products to units overseas.

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Several chains have developed innovative **LOCAL-STORE PROMOTIONS** that help build the brand nationally.

Acting LOCALLY

During winter in Florida, residents want to revel in the sunshine that eludes much of the country. So managers of the Fort Walton Beach, Fla., Tijuana Flats last year started a promotion to help a sub-segment of their customers dine on the outdoor patio. Building on the irreverent attitude the Tex-Mex chain is known for, the franchisee introduced Yappy Hour, a few hours each Saturday when dog owners could hang out with their leashed pets on the restaurant's patio.

Both same-store sales and frequency of regular customers increased as a result. Sales rose approximately 5 percent thanks to the promotion. Soon units in Tampa and Orlando, Fla., launched similar promotions.

Now the Maitland, Fla.-based chain is looking at

ways to build loyalty with dog lovers chainwide. Management is analyzing local regulations to see if dogs can be allowed on patios in other cities and looking at creating promotional items to appeal to the demographic. Currently kids meals come with a Frisbee; creating a related Frisbee for the dog promotion is a possibility, says Carley James, marketing manager for Tijuana Flats. Branded bandanas for the dogs also may be in the works.

"We are known for being funny, unique and on the edge, and people know us for doing random things, so this fits really well with our brand," James says.

A Facebook group has helped the Naperville, Ill., Pockets location build business among younger customers who gravitate to social-networking sites.



Local-store marketing has evolved beyond supporting groups in the community. There's nothing wrong with a franchisee sponsoring the neighborhood Little League team. It can build community goodwill and ensure that the team comes in the restaurant after every game. But these efforts aren't typically relevant to building brand identity.

As marketing has gotten more sophisticated, so, too, have local-store promotions. This new generation of promotions is resonating with the home office as well as consumers of the brand outside the local geographic area. Now it seems much global branding starts locally.

BUILDING LOCAL ONLINE COMMUNITIES

To promote Yappy Hour, Tijuana Flats used low-tech means such as including a flier with each takeout order. Franchisees of other brands have found high tech is a better way to build a local audience.

The Naperville, Ill., franchisee for Pockets, a fast-food sandwich chain, created a "group" on the social networking Web site Facebook. Groups allow Facebook users interested in a common topic to



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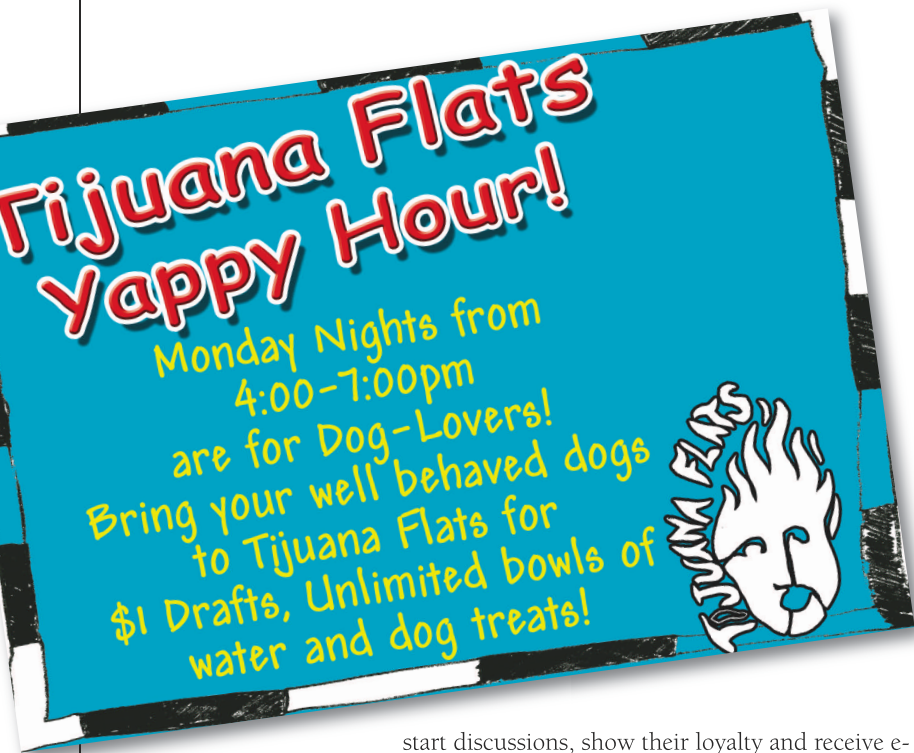
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Tijuana Flats units used the chain's well-known attitude to invite dog owners to bring their pets to the restaurant.

start discussions, show their loyalty and receive e-mails; typical groups include school alumni and fans of bands.

Pockets often delivers to local high school faculty, says Bob Lisberg, who owns the Naperville franchise as well as one in nearby Aurora, Ill. But Lisberg wanted to attract a younger demographic and thought Facebook might be the ticket.

"I was trying to experiment to see what would reach the 16- to 32-year-olds," Lisberg says. He promised the first 50 people who signed up a coupon, an unusual move for Pockets, which typically does very little discounting. He quickly had 250

members. Pockets sent members e-mails thanking them for joining, with a link to a coupon. Now there is a permanent link on the Facebook page for 10 percent off orders.

"With something like Facebook, you cannot be too sure sometimes what will happen. But I think we all are bombarded by advertising. This created a different bandwagon mentality," Lisberg says.

Pockets, which is headquartered in Winnetka, Ill., is just beginning to expand by franchising. Lisberg, who is the company's first franchisee, is working with Pockets founder Dave Litchman to help develop other promotional efforts to build the brand as it expands.

"I want to make sure nothing I do flies in the face of what they are doing [as a brand]," Lisberg says.

PHYSICAL PRESENCE

Technology also helped an Arby's unit in Fort Wayne, Ind., bring in younger customers, as did the use of a promotional product. The store wanted to attract cost-conscious college kids, but knew today's teens couldn't be bothered to clip coupons. The store created an electronic card to hang on a key ring with a long-term, reusable coupon discount. Sales increased 25 percent as a result of the card, and now one-quarter of the unit's customers are cardholders. Atlanta-based Arby's is looking at rolling the program out nationally.

These kinds of promotional items are powerful tools, says Anne Lardner, senior manager of communications for Irving, Texas-based Promotional Products Association International. Research from PPAI and Louisiana State University found that 76 percent of respondents could recall an advertisers' name when they were given a promotional product, as compared to 53 percent who saw a print ad.

When HMSHost, a concessions food and beverage company with 210 locations in travel plazas and airports, wanted to encourage bus drivers to stop at HMS concessions at highway service plazas, it created a character named Gus Busman and Gus Busman's Pocket Plaza Pass, a swipeable card that rewarded drivers with a free meal every time they brought in 20 or more passengers to specific plazas. The program included a customized map with specific service plazas highlighted. In the first year, more than 9,000 drivers signed up for the program, literally driving traffic to the specific locations HMS wanted to support.

"Sometimes a single item makes more sense than a more elaborate national program at a higher cost," Lardner says. ■

Top 10 Industry Buyers of Promotional Products

The promotional-products industry is a \$19.4 billion business in the United States. Use of promotional products in the restaurant and bar segment made the biggest jump in 2007 to No. 10 from No. 17.

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6. Professional associations and civic clubs
7. Real estate
8. Government
9. Doctors, lawyers and CPAs
10. Restaurants and bars

Sources: Promotional Products Association International, Louisiana State University and Glenrich Business Studies

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GROUNDS FOR HOPE

Anybody frustrated trying to get something low-cal bundled with their adult combo meal at the local QSR may have hope: Burger King is selling so many orders of its BK Fresh Apple Fries to adults that it is thinking about offering the apples as a substitution for the fries that normally come with combo meals.

Burger King has sold 5.7 million orders of BK Fresh Apple Fries since it launched July 30—half a la carte, the rest in kids meals. Cut and peeled to look like french fries, the apples are bagged in plastic with calcium and vitamin C to prevent browning, and packed in red french fry cartons with low-fat caramel squirt packs. At \$1.49 per 2-ounce bag, the apples cost the same as a medium fries.

FUN YET NUTRITIOUS

John Schaufelberger, senior vice president of global product marketing and innovation at the Miami-based chain, won't

an APPLE a day

Burger King **FRESH APPLE FRIES** appeal to both kids and adults.

say exactly which rock-star apples are firm and sweet enough to become BK Fresh Apple Fries. But he says there are about five varieties of red-skinned apples that rotate in and out of the seasonal supply chain.

Ada Duque, a food scientist and assistant product innovation manager at Burger King, led the product-marketing team credited with the idea. The eureka moment came during a group session Burger King held in April 2007. The 11,400-unit company had just taken the Better Business Bureau Kids Pledge to restrict kid-targeted national ads to nutritional foods.

GETTING FRESH

Burger King tested apple fries in Orlando, Fla.; Mobile, Ala.; Louisville, Ky.; Albany, N.Y.; and Las Vegas in November and December 2007. Sales were hampered by one thing: "During the test, we did not have the word 'fresh' included in the title, so people were confused, thinking the apples were actually fried," says Schaufelberger. After adding the "fresh" descriptor, BK Fresh Apple Fries sales markedly improved. About one-third of all kids-meal customers now ask for apples instead of french fries.

And with half of the sales attributable to adults ordering a la carte, Schaufelberger says offering apples in substitution for fries is a serious option. "But not in 2008," he says. ■



Sales of apples cut to look like fries are split 50-50 between a la carte orders and kids-meal orders.

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Fleming's extensive **WINE-BY-THE-GLASS** and flight programs make wine accessible to guests.

Varietal SHOW

As national wine director for Newport Beach, Calif.-based Fleming's Prime Steakhouse & Wine Bar, Marian Jansen op de Haar is mistress of many wines by the glass. One hundred, in fact. And the group changes every year.

Called the Fleming's 100, the extensive by-the-glass wine list evolved out of co-founders Paul Fleming and Bill Allen's desire to make wines accessible to guests and to stay on trend. In the 10 years since the program's launch, by-the-glass consumption has steadily increased at the 57-unit chain. Today, of the 50 percent of guests who order wine with their meal, half order wine by the glass and half order by the bottle. About 10 percent of the guests who order wine also order wine flights, trios of 2-ounce tastes of any wines included in the Fleming's 100, at the same price per ounce.

While Fleming's can't say exactly how much consumption of wines by the glass has increased each year, it says increases have been steady, with more significant jumps in sales in the last three years.

"We offer so many wines by the glass because our customers don't want to limit the wine at their table to just one bottle. This way each diner can enjoy what they wish economically," says Jansen op de Haar. "This also gives them ability to compare and contrast different tastes throughout the meal and to try new things."

GREEN THEME

This year's theme for the Fleming's 100 is green. More than 70 percent of the new wines on the 2008-09 Fleming's 100 list are from wineries that practice sustainable farming and/or organic and biodynamic farming. That means grapes used to make these wines were grown without herbicides and pesticides. About 12 percent of the wines on the list are also made with organically certified grapes.

Combining increased consumer interest in green wines with her own desire to introduce guests to smaller, family-owned

green wineries, Jansen op de Haar felt the time was right to bring more of these wines to the by-the-glass list. She says there's also a flavor benefit, believing the fruit used to make green wines to be "purer in taste."

Thus far green wines selling best on the list include Sauvignon Blanc, Merlot and Pinot Noir.

MAKING THE LIST

Tasting more than 5,000 wines and talking with Fleming's wine managers throughout the country, Jansen op de Haar works year-round on developing each new list.

Of the 50 percent of guests who order wine with their meals at Fleming's, half order wine by the glass.

SNAPSHOT

Concept Fleming's Prime Steakhouse & Wine Bar

Headquarters Newport Beach, Calif.

Parent Company OSI Restaurant Partners, Tampa, Fla.

Units 57

2008 Systemwide Sales \$250 million*

Average Check About \$60 with one glass of wine

Expansion Plans Undisclosed

*Chain Leader estimate



LIQUID MEASURE

Fleming's invites customers from its e-mail database to wine parties to debut the new list.

She chooses 70 of the wines; wine managers at each unit select the rest to allow for regional preferences.

Some wines may stay on the list for two or three years, based on quality and popularity, but about 40 change each year. "I always include new trends," Jansen op de Haar says. "Sometimes it's a country that's taking off or a grape that's making waves. I try to push the envelope a little bit."

The final list balances popular selections with harder-to-find bou-



Fleming's Wine Vine carries a flight of three, 2-ounce tastes of any varietals on the Fleming's 100 list.

tique wines and is shaped to offer good value and to complement Fleming's menu.

Best-selling entrees at Fleming's are the 28-day aged prime bone-in rib eye and the seared ahi with tomato vinaigrette. Reflecting that, best-selling wines at Fleming's—both by the glass and by the bottle—are Cabernet Sauvignon and Chardonnay, wines that classically pair best with steak and fish. Newer wines that have also been selling well include Riesling and Syrah. "We've been guiding guests to pair these with dishes such as the Sweet Chili Calamari [lightly breaded and tossed with sweet chili sauce] and Filet Mignon, respectively," says Jansen op de Haar.

WINE EDUCATION

Prior to the launch each July, all Fleming's wine personnel take a wine trip together to either Napa Valley or Sonoma, tasting 70 wines. Managers present their regional selections by hosting weekly tastings with servers and bartenders to get them acclimated to the list.

To educate guests and help them navigate the menu, Fleming's lists wines progressively, organizing them first by grape variety and then according to body and flavor intensity. The list flows from lighter to more fully flavored wines. Each is priced from \$6.50 to \$25 a glass.

But the easiest point of entry for customers

BIG idea To boost afternoon bar business, Fleming's new Chicago unit added a Bites & Flights menu of small plates paired with 2-ounce pours of matching wines. Launched in May, the menu includes Shrimp and Bacon Tempura, lightly battered jumbo shrimp and crispy bacon served with soy-ginger sauce, paired with an Italian Chardonnay.

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is Fleming's flight program. Guests ordering flights get three, 2-ounce tastes of wine fitted into Fleming's Wine Vine, a decorative, wrought-iron holder. Customers can create their own flights or try Fleming's Flight of the Night, a weekly changing selection of one white, one red and one Reserve wine. As they get more familiar with the wines, guests are encouraged to try "blind" flights that come with tasting notes, and guess which wine is which.

Operationally, Fleming's says handling so many wines by the glass has not been difficult. Opened bottles are "sparged" with argon—an inert gas that slows oxidation—and kept in climate-controlled, 100-bottle reach-in bins (45 degrees for whites; 60 degrees for reds). Full pours are served in 24-ounce tulip-shaped glasses. Flights are served in 13-ounce glasses.

GETTING THE WORD OUT

Marketing its wines, each year Fleming's 100 debuts at a series of Night of Discovery parties in July for Fleming's online database of customers throughout the country. The events feature five of the new wines paired with five appetizers each night. Parties happen once a week for four weeks. Fleming's also hosts three annual wine dinners systemwide. Each unit may do another four or more special events hosted by local wineries.

But the fact that Fleming's launches a new Fleming's 100 list each year is by far the biggest draw. "People are drawn to what's new," Jansen op de Haar says. "And because there are so many options, people know this is an easy way to learn about a lot of wines without a lot of rules." ■

The best-selling wines at Fleming's are Cabernet Sauvignons and Chardonnays, but Rieslings and Syrahs are also newly popular.

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Hidden ASSETS

LIMITING GUESTS' VIEW into the display kitchen helps Freshii keep labor costs down and tidiness up.



This past spring, Matthew Corrin, founder and president of Lettuce Eatery, opened the 12-unit, fast-casual concept's first location in the United States.

Located in an office tower in Chicago's West Loop, it's called Freshii. Like its Canadian siblings, it offers made-to-order wraps, salads, rice-based bowls and soups. There are no seats, save for communal tables in the office tower's lobby. Most of the food preparation takes place in a display kitchen.

At the Canadian locations, the display kitchen is what Corrin calls "glamorous," complete with custom-made makeup tables and marble counters. From the moment customers fill out their ingredient sheet and place their orders, they can see their food being made. Orders are prepared by personable "ambassadors," who give a running commentary as they load ingredients into salad bowls or sandwich wraps. "It's a little bit of a show," Corrin says.

But glamour isn't cheap, nor is it always glamorous. Expenses and tidiness were two reasons Corrin, a former marketing manager at Oscar de la Renta in Manhattan, retooled the display kitchen before entering the U.S. market. The most important change is a partition that partially obscures customers' view of food preparation. For a display-kitchen concept, that sounds antithetical, but Corrin says it works, and splendidly.

DIVIDE AND CONQUER

Salads, bowls and sandwiches, be they standard or dictated by the customer, are prepared in Freshii's 200-square-foot display kitchen. A small back of the house is used for prepping vegetables and cooking rice, and dry and cold storage.

Display kitchens have their drawbacks: Because they're so visible, they have to look as perfect as a working kitchen can look. Corrin discovered that at Lettuce Eatery the kitchen was falling short of the tidiness mark, especially during lunch rush. "By 11:15, the place was a mess," Corrin says. The stainless-steel divid-

Partially obscuring guests' view of the made-to-order salads and sandwiches has helped cut food costs because they can no longer ask for "just a little bit more" of this or that ingredient.



Because customers no longer watch their orders being assembled, they have more time to browse the retail offerings. As a result, retail sales have risen to 15 percent from 5 percent of total sales.

Salad “designers” are tested on their knowledge of portions weekly and monthly.



ers between drop-ins would be covered with food, no matter how hard cooks tried to keep things clean. The mess, Corrin decided, detracted from the display-kitchen concept.

Food costs suffered, too, because customers felt free to urge employees to add a bit more of this or that beyond the portioned scoop, and employees felt obliged to comply.

To solve that problem, Corrin removed a hip-height counter and sneeze guard that fronted a custom refrigerated stainless makeup table with 80 drop-ins for chopped proteins, vegetables and toppings. The makeup table, now a stock product rather than custom item, now runs along the back wall of the display kitchen. A work station with a cutting board and two tiers of salad-dressing pumps is now in its place.

MIRROR, MIRROR

That work station is separated from public view by a 5-foot-high laminate partition. The partition is topped with a Corian counter that displays baskets of fruit and signage touting Freshii services such as catering.

But the action isn't all hidden. An abstract acrylic mirror suspended above the makeup line lets customers see the staff in action, albeit in a slightly distorted fashion.

“We took the concept from a demo kitchen,” explains Ryan Nestor, managing principal at Barker Nestor Architecture + Design, the Skokie, Ill., firm

that helped on the project. The mirror, which cost about \$1,500 to make and install, reflects “the energy and the action and the bright colors” of the vegetables, if not the precise movements of the cooks, he says.

The mirror will be a showcase in future Freshiis and will change slightly from location to location to give each restaurant a signature look. Corrin adds that the mirror will most likely become less abstract, the better to show more movement.

SMALL CHANGES, BIG RESULTS

Hiding the display kitchen and flipping the makeup tables has yielded results so dramatic that Corrin plans to retrofit the Canadian outlets to match the American prototype.

Food costs have dropped by 2 percent, partly because customers can no longer ask for extra toppings and portioning has become more exact. Cooks use gloved hands—the restaurant goes through about 200 pairs of gloves a day—to portion, and are spot- and formally tested regularly on their portion knowledge.

Retail items—a collection of 40 to 50 SKUs that includes packaged chips, cookies, ginger chews and chocolate-covered espresso beans—now comprise 15 percent of sales, up from 5 percent in the Canadian stores. That's because customers now browse

SNAPSHOT

Concept Freshii (Lettuce Eatery in Canada)
Location Chicago
Area 1,000 square feet
Seats none
Opening Date June 16, 2008
Average Check \$9
Unit Volume \$800,000
Expansion Plans 3 by summer 2009

BACK OF THE HOUSE

Food costs at Freshii have dropped because customers no longer can ask for extra ingredients.



Freshii employees help keep ticket times at around five minutes to seven minutes even during lunch rushes.

the goods and make impulse purchases instead of watching their orders being assembled, Corrin explains.

Equipment costs have dropped 15 percent due to the use of stock equipment rather than custom. The only custom piece is a metal rack that holds salad and soup containers. The rack is positioned on the far end of the makeup line, next to a reach-in refrigerator that holds containers filled with salad bases: lettuce, mesclun, romaine and spinach.

The design will be adjusted as Freshii expands, to three more Chicago-area units within the next year. Nestor says the millwork is being redone to be able to fit the shells of new construction, which aren't always flat and flush. The front of the house may be reconfigured, too, to add a counter and several tables for seating.

Overall, Nestor says, the Freshii concept of fresh food made to order remains. "We think it's a nice compromise," he says of the new layout. "It also gives Matthew the capability to get capacity and through-put from his salad-making engine." ■

Employees prep vegetables in a small back-of-the-house production area. Chicken is cooked at a commissary.

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If *Chain Leader's* Driving Traffic research reveals anything, it's that restaurant chains try all sorts of ways to increase customer counts and that different methods work for different operators. Sure, there are some methods that operators across the industry seem willing to try. But when asked which method is most effective, no one answer receives more than 11 percent of responses. For the complete research report, see "Keep Customers Coming" on Page 35.

Checkers relies heavily on menu updates to drive customer visits.



Servers at The Melting Pot play an integral role in the guest experience.

MENU MANIPULATION

Checkers Drive-In Restaurants Inc., for example, relies heavily on menu updates to drive customer visits. Ryan Joy, director of research and development, says there is always a limited-time offer—about nine per year. About three-quarters of the time it involves a new product; the others are core-menu promotions. "We always like to have new product news out there," he says. According to the Driving Traffic research, 69.6 percent of operators add new menu items to drive traffic, and 44.6 percent use menu promotions.

The Tampa, Fla.-based parent of double-drive-thru concepts Checkers and Rally's began a limited-time offer of a Buffalo chicken sandwich in July and added the sandwich to its Double Value Menu in August.

The company adds new items to the menu only about once every two years. Joy says the chicken sandwich made the cut because it uses a popular brand of Buffalo-wing sauce, which is part of the sandwich's name. "It's a familiar flavor that people know. It's almost comfort food. And it's a familiar brand. I can easily drive traffic with their brand equity," Joy says. Only 10.7 percent of Driving Traffic respondents use recognizable consumer brands to increase visits.

PRICING STRUCTURE

The sandwich sells two for \$3, a common pricing scheme at Checkers and Rally's. Many sandwiches come two for \$4 or two for \$5. The company defines value as, "how much 'real' food you can get for not a lot of money," Joy says. "It's about size, flavor. We sell a boatload of two-fers." Just over 30 percent of Driving Traffic respondents use discounts for bundling or upsizing.

But do new and promotional offers drive traffic? Joy says they do, without quantifying. Checkers asks customers about their visits, including whether they would make an extra trip for a specific product. "We're looking for items that are going to drive people to seek out a Checkers or a Rally's," he says.

At the same time the chain is trying to increase visits from current guests and bring in new customers, it tries to raise

continued on page 41

Restaurant chains combine different tactics to **DRIVE MORE TRAFFIC** to their stores.

mix and MATCH

Keep Customers COMING

This exclusive Driving Traffic research asks chain operators which methods they use to keep guest counts up and which ones really work.

This year the question is more relevant than ever: How do you get more customers coming through the doors?

Operators use many methods, from sending an e-mail newsletter to a small group of loyal guests to airing a national television campaign, from sponsoring a charity's 5K run to running new menu specials more frequently. But when margins are slim and consumers are cautious, which methods are the best investments?

To learn some answers, Chain Leader surveyed 56 operators, each from a different restaurant company. A majority of the executives hold director, vice president or chief officer titles in marketing or operations. 21.4 percent of them have four to 10 units; 37.5 percent have 11 to 99 units; and 41.1 percent have 100 or more. Respondents represent quick service, fast casual and full service; corporate offices and franchisees; and a wide range of menu segments, average checks, unit counts and average unit volumes.

Asked how their traffic counts compared with last year, 28.6 percent of respondents say they are up, 39.3 percent say they are down, and 32.1 percent say they are flat. Those figures are different depending on segment: 38.5 percent of quick-service operators say traffic is up; 20.0 percent of fast-casual and 33.3 percent of full-service operators say the same.

When asked their three biggest concerns for this year, 12.5 percent name reduced or soft customer traffic. Increasing food, labor and energy costs, as well as recruiting and retaining employees, all were of greater concern. However, 22.2 percent of full-service respondents cited reduced traffic in their top three.

ADS ON TOP

All of the respondents use some sort of advertising, from signs at the restaurant to e-mail campaigns. When asked their primary advertising method, television rises to the top, named by 30.6 percent of operators. 26.5 percent cite Internet or e-mail, and 12.2 percent, newspapers. During the past 12 months, 17.9 percent began using Internet or e-mail advertising for the first time or increased its use, while 16.1 percent say

they decreased or stopped use of TV.

When respondents were asked which method of driving traffic was most effective, three of the top four methods cited were advertising: 10.7 percent, Internet or e-mail advertising; 8.9 percent, TV; and 7.1 percent, newspaper. More than a third (33.9 percent) named some form of advertising as their most effective way to drive traffic.

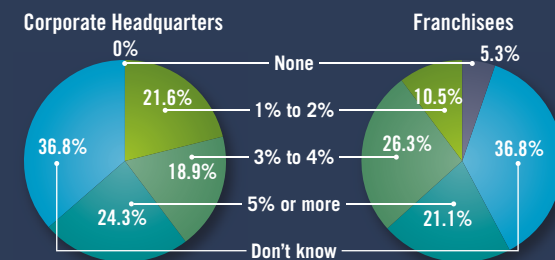
And 28.3 percent have increased or started use of direct-mail fliers. About one of 10 respondents say they are their most effective means of increasing guest counts.

When it comes to other price promotions, 30.4 percent of respondents offer discounts for bundling or upsizing meals, and 28.6 percent offer senior discounts.

Respondents also use their menu to keep custom-

Paying for Exposure

Respondents in corporate headquarters were asked what percentage of their operating budget is allocated toward marketing; franchisees were asked their marketing expenditures as a percentage of sales. The median for corporate is 3 percent, while the median for franchisees is 4 percent.



Source: Chain Leader 2008 Driving Traffic

PRICES, MENUS, MORE

Most, or 94.6 percent, of those surveyed use some sort of price promotion to drive customer visits. Fully 60.7 percent of respondents use direct-mail fliers/coupons to help drive traffic, and more than half (51.7 percent) of those using price promotions say it's their primary method.

ers coming. 69.6 percent of operators update the menu or add new items. About half (51.4 percent) of those who use any menu updates say adding new items is their primary means, and 26.0 percent say they have increased the rate of updates.

Other top menu methods are updating the beverage



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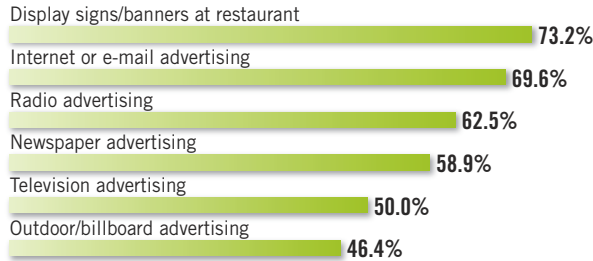
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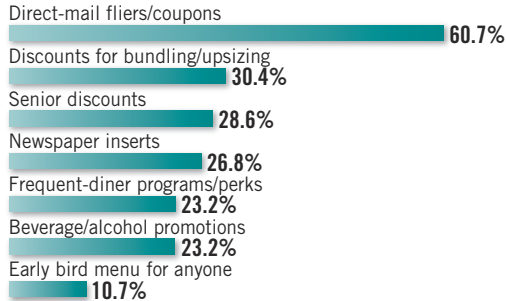


The Many Methods

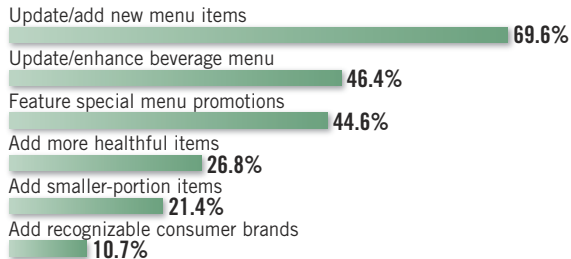
All of the restaurant-chain operators responding use some form of advertising to drive traffic. The top methods are:



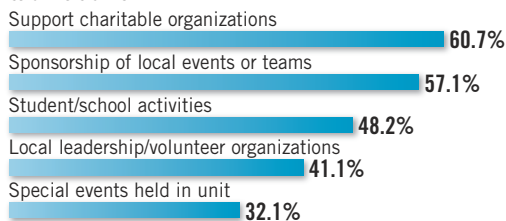
94.6 percent of respondents use price promotions. Of all respondents, these are the top methods cited:



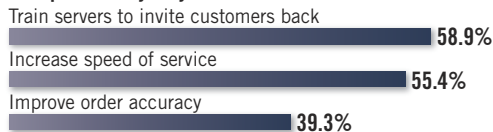
89.3 percent adjust the menu to increase customer counts. Operators noted these as the top ways:



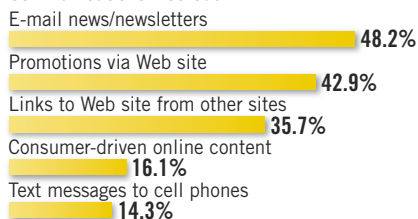
87.5 percent of respondents use community involvement to drive traffic:



85.7 percent say they use service enhancements:



76.8 percent of survey respondents use electronic communications methods:



Source: Chain Leader 2008 Driving Traffic

menu, cited by 46.4 percent of operators, and featuring menu specials, cited by 44.6 percent. Almost 9 percent of respondents don't use menu changes to try to drive traffic; in last year's Driving Traffic survey, 39 percent did not use menu changes.

While it's hard to quantify the results, 87.5 percent of respondents say they use community involvement to help drive traffic. 60.7 percent of respondents support charitable organizations, 57.1 percent sponsor or participate in local events or sports teams, and 48.2 percent have student or school involvement. When asked which methods they have started or increased use of in the past year, 14.3 percent list special events held in the unit such as cooking classes or parties.

85.7 percent of operators say they use service methods like training servers to invite customers back (58.9 percent) or increasing the speed of service (55.4 percent). Of those who use service methods, one-third have started or increased their budget

for training servers to invite guests to return.

More than three-quarters use electronic methods to increase customer counts. For example, 48.2 percent of respondents use e-mail news or newsletters, and 42.9 percent use promotions via their Web site. A growing trend, 23.3 percent of those using such electronic methods are using e-mail news more than the prior year, and 25.6 percent have increased their use of promotions on their Web site.

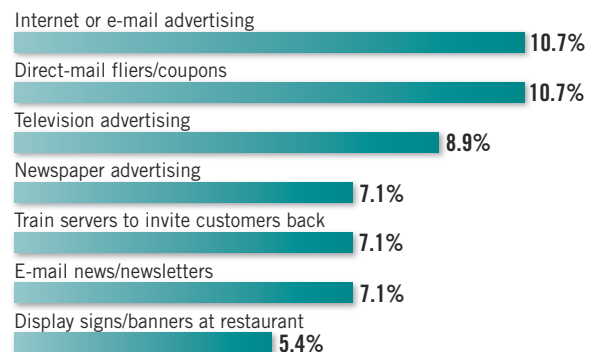
MEANS TO AN END

Directed to think about their most successful method of driving traffic, respondents were asked about what they hoped to achieve. 46.4 percent were hoping to increase visits by frequent diners; 37.5 percent, to attract more of their current target demographic; 30.4 percent, to attract a new demographic group; and 21.4 percent, to increase traffic during a specific daypart.

On the positive side, 80.4 percent of respondents said

The Winners Are...

Asked to name which is the most effective of the many methods they use to bring more traffic into their restaurants, more than a third (33.9 percent) named some form of advertising. A list of the top methods shows none as an overwhelming choice:



Source: Chain Leader 2008 Driving Traffic

their most effective method of driving traffic did indeed raise customer counts. But only 60 percent of those can quantify how much. 22.2 percent say their traffic went up between 1 percent and 5 percent; 17.8 percent say 6 percent to 10 percent; and 15.6 percent say 11 percent to 20 percent. The mean figure for those who quantified an increase is 11 percent.

SUPPLY SIDE

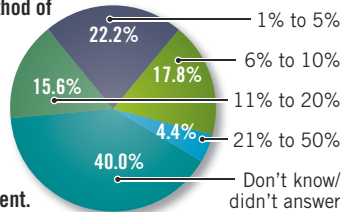
Suppliers often try to help grow chains' business. Asked which methods suppliers have offered them, 21.4 percent of respondents name menu development; and 19.6 percent, promotions or prizes for customers. 17.9 percent of respondents cited shared advertising expenses, in-store POS materials and wait-staff incentives.

Respondents were then asked to tell how effective the methods they have been offered are. One size does not fit all. Of those who cite menu development, one-quarter say it has not been effective in driving traffic. But another quarter say it has been effective. Of those citing customer promotions, 36.4 percent say they are not effective, but 27.3 percent find them to be effective.

Interestingly, 51.8 percent of respondents say that no suppliers have offered help in driving traffic in the past year. In last year's Driving Traffic study, that figure was less than 30 percent. Chain Leader did not ask if suppliers were helping in other ways, such as offering discounts or new payment terms. Suppliers, also struggling with margin pressure, may be sharing their most effective tools with a smaller pool of customers. ■

Seeing Success

Most of the respondents (80.4 percent) say their most effective method of driving traffic over the past 12 months was indeed successful. 10.7 percent say it did not drive traffic, and 8.9 percent don't know. Those who saw increases were asked to quantify. The mean response was 11 percent.

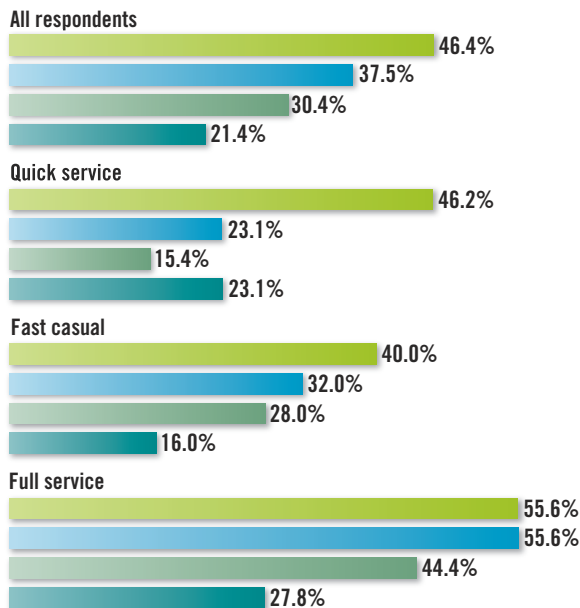


Source: Chain Leader 2008 Driving Traffic

Good Intentions

Chains from different segments often have different goals in mind when trying to drive traffic. Bases for each segment are low; the findings are directional only. Respondents were asked what the goal was of using their most successful method.

- Increase visits by frequent diners
- Attract a new demographic
- Attract more of a current demographic
- Increase traffic during a specific daypart

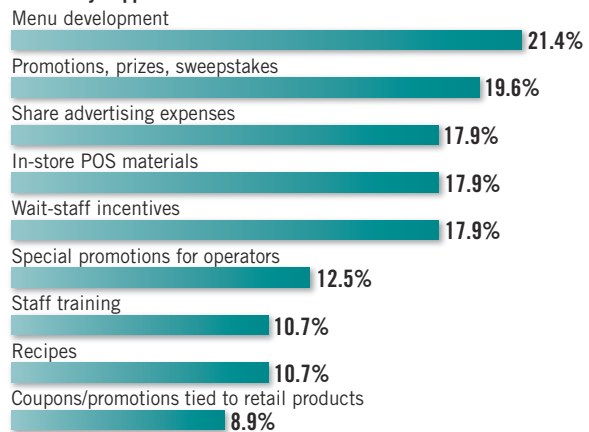


Source: Chain Leader 2008 Driving Traffic

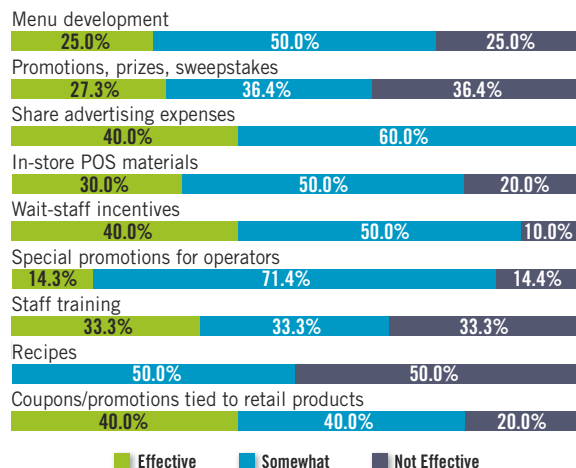
Help from Suppliers

Often, chain operators' supplier partners will offer help to drive customer traffic. The more commonly offered are not always the most effective, according to respondents. This chart shows the percentage of operators who have been offered the service and how effective operators who received each service felt they were.

Offered by Suppliers



Level of Effectiveness



Source: Chain Leader 2008 Driving Traffic

checks, which average \$6. Checkers use its POS system to upsell customers in its 826 stores; when they order certain items, a dialog box pops up on the register, prompting the cashier to ask if they want cheese or whatever is applicable.

SERVICE MODEL

The Melting Pot also has much in common with the 85.7 percent of Driving Traffic respondents who use service enhancements to increase customer visits.

Bob Johnston, COO of the Tampa, Fla.-based fondue chain, says it's tough to quantify, but good service does create return visits. "There's a correlation between their ability to create a valuable guest experience in the restaurant—if we create value for the guest, they're anxious to return, and they become part of your marketing team," he says.

The Melting Pot's 138 restaurants, where guests cook their own appetizers, entrees and desserts at the table, lend themselves to celebrations. So the company's mission is to provide the "perfect night out."

The servers try to become part of the experience as they teach guests about the menu and how to cook. "We're not just taking orders and bringing out food, we're actually part of their celebration," Johnston says. "We try to key into guests on an emotional level as much as a technical level."

While many chains use frequent menu updates to drive traffic, The Melting Pot doesn't change the menu often. Its loyal

Benihana Does Well by Doing Good

The Kabuki Celebrity Cookoff brought local politicians, a retired pro football player, a news anchor and other area VIPs to the Fort Lauderdale, Fla., Benihana to cook with the chain's teppenyaki chefs. They entertained, showed off their knife skills and competed for tips. The August event raised \$33,500 for Big Brothers Big Sisters of Broward County.

Chairman and CEO Joel Schwartz, who is on the board of the Greater Miami Chapter of Big Brothers Big Sisters, says such efforts not only bring goodwill to the company. "Goodwill is the magic word," he says. "It brings recognition. It drives traffic."

Miami-based Benihana, which operates 60 of the teppenyaki restaurants and franchises 19

more, plus owns 20 Ra Sushi and nine Haru units, supports many charities including medical-research and family organizations. It recently became involved with Best Buddies, an organization that helps people with intellectual disabilities build social and work skills.

"It's not only that we feel good, our employees feel wonderful about it," Schwartz says. "They feel that's part of the organization. They can hold their chest out." And he adds that consumers like to come to a place where the employees are proud of where they work.

Benihana also involves the customers in the effort. For example, the chain will hold a Best Buddies Roundup in which customers can round their bill up to the next dollar for the charity and Benihana will match the amount. The company could simply donate the amount, but involving the customers promotes Benihana's goodwill and makes them feel part of it.

"It's a way to get awareness and do something good at the same time," Schwartz adds.



guests visit three or four times a year, Johnston says, and average customers come about twice a year.

When it does update the menu or run a promotion, for example the new Big Night Out menu it debuted in September, it gets the word out to its 1 million-plus Fondue Club members, who have signed up for e-mail updates from the chain. "This is a great excuse for talking to them," Johnston says. Driving Traffic research shows 48.2 percent of respondents use e-mail news or newsletters.

But Johnston stresses that the chain's greatest efforts come when the guests are in the restaurant, and that is what helps customers think of The Melting Pot the next time they have something to celebrate.

He admits that with its experiential dining, Melting Pot has an advantage when it comes to connecting with customers. But he adds, "Any operator who's focused on the guest experience isn't going to be hurt by the effort, no matter what kind of restaurant we're talking about." ■

Chick-fil-A Taps its Raving Fans

Chick-fil-A is well known for its billboards featuring cows asking customers to eat chicken. Long a buyer of traditional advertising, the Atlanta-based quick-service chain took a step into the World Wide Web with its Biggest Fans video contest. The effort garnered about 100 videos of customers telling why they are the chain's biggest fan, and more than 400,000 hits. Visit www.chainleader.com to read the whys and hows of the contest and what's next for Chick-fil-A's electronic efforts.



Red Mango rolls out its brand of tart frozen yogurt with a simple—**AND SO FAR PROFITABLE**—business model.

sweet DEAL



Red Mango Chief Operating Officer Jean Birch says she hasn't seen anything like it—and she's worked for some of the industry's most lucrative quick-service concepts including Pizza Hut, Taco Bell and Corner Bakery.



"It" being the difference between the cost of opening a Red Mango unit—anywhere from \$263,000 to \$364,000—and its annual sales volumes, which range between \$700,000 and \$1.2 million, according to the company. That difference likely translates into healthy unit-level cash flows even after subtracting franchise fees (\$35,000) and royalties (8 percent of sales, including the advertising fund). The privately held company doesn't share full unit economics.

"The numbers tumble pretty well in this business, especially when you look at the level of complexity," declares Birch, meaning the lack of hoods, stoves and long ingredient lists typical of fast-feeders. "This is a pretty straightforward business model."

So far, the model has attracted franchisees in nine states that operate 24 of Red Mango's 36 units, all of which have opened since July 2007, a pace founder and CEO Dan Kim says is continuing this year and next. The company expects to open 30 units in 2009.

"We believe the [frozen yogurt] market is very hot and will remain very hot for a couple of years," says Korean-born Kim.

Unless you've been visiting another planet, you're aware frozen-yogurt chains have been popping up with the regularity of ragweed, chiefly in areas where young and style-conscious consumers hang out. Red Mango opened its first store in the trendy Westwood neighborhood of Los Angeles. Today 70 percent of Red Mango's customers are female, no doubt drawn by the no-fat and low-calorie product.

Red Mango will exploit the trend by developing

BIG idea Instead of devoting a \$12 million private placement to bricks and mortar, Red Mango is investing much of that sum into a marketing program headed by veteran executive Jim Notarnicola.



company and franchise units in existing markets rather than entering new ones. Seattle and San Francisco, the company's highest volume markets, will get the most attention in coming months, Kim adds.

NEW MANAGEMENT TEAM

To help expand the chain, an outgrowth of Korea's 140-unit Red Mango chain, Kim recently hired Birch, who is overseeing development and building an infrastructure to manage franchise and company stores, and Chief Marketing Officer Jim Notarnicola, a veteran of Blockbuster and 7-Eleven. At press time Kim was looking for a chief financial officer.

Such executive timber is the result of landing a \$12 million private placement from CIC Capital Partners in Dallas, led by CIC Operating Partner and former Taco Bell Chairman John Antioco. Now Red Mango's chairman, he says the return-on-investment could be in the 20-plus range, though he adds, "I'm not ready to define the 'plus' just yet."

The new capital isn't destined for unit growth. "We won't necessarily be deploying that capital on bricks and mortar," Kim says. "I want to build a management team and spend the money more strategically on advertising."

BUILDING THE BRAND

Like other startups, Kim has spent few dollars on marketing, gaining brand awareness chiefly through viral marketing and sponsoring local events. Red Mango recently supported a Korean-American Bar Association meeting and NBC Summer Press Day.

Kim wants to do more of the same but also add traditional media to the mix. "Now that we have money, we will focus our efforts on more interactive marketing and print," says Kim.

Brand awareness is also the result of market penetration. Red Mango has already jumped across the country to New York City, where a franchisee operates seven stores, and suburban Chicago. Other markets include Seattle, Salt Lake City, San Francisco and Los Angeles. The Sherman Oaks, Calif.-based company is a registered franchisor in 15 states, according to a franchise circular on file with the California Department of Corporations.

"Most of those cities have large populations that are very health conscious and active," Kim explains. "They're also educated and love to keep abreast of things that are new, especially in Seattle where it

A worker (opposite) fills a cup with Red Mango's tart-flavored, nonfat frozen yogurt. Seconds later, she'll add one of more than 19 toppings at the customer's request.

Red Mango's yogurt contains live microbial cultures dubbed "probiotics" that may be beneficial.

Sleek decors help account for the concept's attraction and hefty volumes.

Photography by Kingmond Young



SNAPSHOT

Concept Red Mango
Headquarters Sherman Oaks, Calif.
Units 12 company, 24 franchised
2008 Systemwide Sales \$28 million*
Average Unit Volume \$700,000 to \$1.2 million
Average Check \$6
Expansion Plans 30 in 2009

*Chain Leader estimate

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GROWTH STRATEGY

“[Chairman] John Antioco convinced me the concept would attract talent who could help me grow in existing markets.”

—CEO and founder Dan Kim



Before opening, Red Mango workers check supplies and fit themselves with gloves. Glass countertops and stainless-steel fixtures also suggest that hygiene is a top priority.

rains a lot. They love hanging out in a relaxing environment.” What about Salt Lake City? “There are not a lot of destinations that are stylish, and people there don’t drink a lot of coffee.”

A ‘FROYO’ STAMPEDE

The market for frozen yogurt is being driven by a consumer eager for healthful snacks and quiet places to spend time. Frozen yogurt, especially the tart (as opposed to sweet) variety, can contain live microbial cultures dubbed “probiotics” that may be beneficial. Some so-called frozen yogurts do not contain live cultures. It doesn’t hurt, either, that green tea is one of two flavors Red Mango offers; the other is “original,” a plain yogurt. Sixteen toppings keep things interesting.

In Kim’s many TV appearances, he almost never

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CHAIN LEADER **LIVE** IS AN INTERACTIVE FORUM WHERE CHAIN RESTAURANT EXECUTIVES GAIN BUSINESS INTELLIGENCE AND INSIGHTS FROM THEIR PEERS, NETWORK WITH KEY INDUSTRY PLAYERS AND SAMPLE INNOVATIVE MENU IDEAS.

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GROWTH STRATEGY

How long the craze for “froyo” remains popular is anyone’s guess—today. But if the largest players, like Red Mango and Pinkberry, can franchise their way among active and educated people, the chains may hang around longer than the last round.

fails to mention Red Mango’s frozen yogurt is “authentic,” meaning it contains enough live cultures to rate a seal of approval as real yogurt from the National Yogurt Association. Pinkberry, after an embarrassing episode this spring involving a lawsuit charging its products did not contain enough live cultures to warrant calling it yogurt, now boasts the same seal of approval.

As Birch suggests, there is little complexity. Red Mango’s proprietary tart yogurt product is thawed to liquid consistency in the unit before being added to soft-serve machines.



Red Mango’s strongest markets are San Francisco and Seattle, where the educated, active demographics neatly define the target customer.

Unit to Unit: RED MANGO VS. PINKBERRY

Select unit numbers from the two hottest frozen-yogurt chains.

	Pinkberry	Red Mango
Revenues	\$1.7 million to \$3.0 million*	\$700,000 to \$1.2 million
Units	60	36
Investment cost	\$343,300 to \$1.0 million	\$263,500 to \$364,000
Franchise fee**	\$40,000	\$35,000
Royalty/ad fund	7.0%	8.0%
Protected trade area	none	3 miles

*Chain Leader estimate; **Single-store franchise

Kim isn’t worried about two-year-old Pinkberry, now backed by Maveron, Starbucks CEO and Chairman Howard Schultz’s venture-capital firm. Kim says 60-unit, Los Angeles-based Pinkberry attracts a different crowd: “younger and narrower.” Since opening the first unit, he adds, he’s learned Red Mango’s audience isn’t merely trendy. “Red Mango works well outside of Los Angeles,” he says.

KEEPING THEM COMING

Yet what’s to keep traditional ice cream shops or fast feeders from jumping on this trend? Hipness, in a word. Both Red Mango and Pinkberry, taking their cue from the success of highly designed Starbucks, have paid particular attention to interiors. Customers rest their tushes in Philippe Starck chairs at Pinkberry. Intimacy is the rule at Red Mango. “We like creating these zones of privacy,” Kim explains. “I call them friendship booths.”

A more pressing concern to investors is how long the lust for frozen yogurt lasts. In its last incarnation, from the early to mid-’90s, interest flagged after bad publicity. “There was a big rise in the number of stores, and they were successful for a while, and then nutritionists began pointing out the caloric content. Turns out, it wasn’t all that different from ice cream,” recalls Bob Yonkers, chief economist for the International Dairy Foods Association in Washington, D.C.

The result: Americans consume a mere 1.3 pounds of frozen yogurt per capita annually, down from 3.5 pounds in 1993, according to the U.S. Department of Agriculture.

Trend-watcher Richard Laermer dismisses the current round as another fad. “Problem with all these expensive yogurt stores is they all want to be hip. You cannot manufacture that sentiment,” argues the author of *2011: Trendspotting for the Next Decade*. “Even Pinkberry is becoming a joke, and now that the masses are going to it, it’s slowly becoming as passé as something that was cool yesterday.”

Not so, Antioco insists: “This time is different because we believe the healthier-for-you trend, as long as the product provides satisfaction in the right kind of environment, will be around for a long time.” ■



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Starting OVER

Popeyes takes another stab at **EXPANSION IN PANAMA** with a food industry veteran in a fast-growing economy.

Dave Smith is hoping the third time's the charm when it comes to the franchise agreement he inked last December with Panamanian Jey De Leon, a food industry veteran.

De Leon's company, Landmark International Holdings, is the third owner of the six-unit franchise since the Cajun-chicken chain opened its first restaurant in Panama in 2001. "That past owner was OK," recalls Smith, COO of international for Atlanta-based AFC Enterprises, franchisor of Popeyes Chicken & Biscuits, "but he didn't have the same kind of fire that Jey brings to the brand. He was more of a banker than a restaurant guy."

Popeyes' Panamanian franchisee acts as its own distributor, loading containers and maintaining a warehouse from which it ships goods to the restaurants.



Co-owner De Leon has agreed to open 10 Popeyes over the next four years. It won't put Popeyes close to fried-chicken rivals KFC (22 units) or Pio Pio (45), but it's a start after seven years of slow development.

"We have a lot of room for growth," declares De Leon, a former foodservice-distribution executive who once owned a restaurant. He expects all 10 will be in inline or endcap units in strip centers or in malls.

Panama's thriving economy means increasing amounts of disposable income among more people. Popeyes is attempting to cash in on the prosperity, though its six stores remain largely unknown on the isthmus.

POPEYES WHO?

First, however, De Leon must boost brand presence. A recent marketing study he commissioned showed that many fast-food customers didn't know Popeyes existed or

believed it wasn't up to snuff with competitors. "Others thought it was seafood," De Leon says dryly.

The units do serve sea bass and calamari. De Leon has also added mini-desserts and Buffalo chicken wings with the franchisor's blessing. He's also revving up motorcycle delivery, a crucial component in the battle for market share. "It's a very important part of our business," he says, adding his company owns a call center in Panama City.

SNAPSHOT

Company Landmark International Holdings
Concept Popeyes Chicken & Seafood
Headquarters Panama City, Panama
Units 6
Average Unit Volume \$750,000
Average Check \$5.50*
Expansion Plans 10 by 2012

*Chain Leader estimate

“We are going to be the No. 1 concept that delivers fast, better and more accurately.”

—Jey De Leon, Popeyes Chicken & Seafood franchisee



Jey De Leon is the third owner of Popeyes' six-unit franchise in Panama. Although the fried-chicken chain remains far behind larger rivals KFC and Plo Plo, De Leon expects to boost market share with an agreement calling for 10 new restaurants over four years.

Still, the brand's relative obscurity is worrisome given strong competition from bigger and well-established fried-chicken rivals. McDonald's and Burger King also peddle fried chicken.

To get the message out, De Leon launched an image-building campaign early August using TV, radio, outdoor and print. A humorous 30-second spot uses the tagline “the chicken is in your head” and shows men at work, in a gym and at a bus stop distracted by images of fried chicken.

The campaign runs through October but may extend into November. The reason: Sales shot up 35 percent in the first month. De Leon won't share sales figures, citing his rivals. Smith, however, estimates the units were ringing up between \$15,000 and \$20,000 a week when Landmark took over.

For the second quarter 2008 (ended July 13), same-store systemwide sales among Popeyes' international restaurants open for 15 months or more rose 1.7 percent, continuing a positive trend that began last year. AFC officials credited the Middle

East and Latin America for the increase. At the end of 2007, Popeyes franchised 322 restaurants in 29 markets outside the United States.

De Leon's first Popeyes, slated to open in October in a mall in the Colon Free Zone, will add to the total. The two-story structure will feature a kids' playground on the second level and New Orleans-style decor. Next year, he'll open Popeyes in Panama City on the Pacific Ocean side of the isthmus, hoping to draw customers from cruise ships. “That's another chunk of business,” De Leon says.

ECONOMIC PROSPERITY

The biggest source of revenue, however, could come from the thousands of people seeking work on the Panama Canal expansion, a \$5.25 billion project overwhelmingly approved by the country's voters two years ago. The Panama Canal Authority estimates some 44,000 jobs will be created by 2010, and twice that many by 2020, five years after the project is completed.

De Leon is planning to open at least one store near the housing developments already under construction near the old Canal Zone. The area, he says, is also a magnet for American and foreign companies setting up their Latin American headquarters.

Foreign investment is part of the reason Panama's economy is thriving; another is the free-trade agreement with the United States. The World Bank reports real gross domestic product has grown an average of 7.5 percent annually since 2004. “Today, the Panamanian economy is among the fastest growing and best managed in Latin America,” it notes on its Web site.

De Leon is taking advantage of the prosperity. He mentions opening a unit in a high-end area of Panama City within the next two years and boasts its architecture will be so unique he'll need AFC approval. “It will be a store with drive-thru, playground, big dining room—the whole nine yards,” he declares.

De Leon has his work cut out for him, though there's good news: Panamanians consume 60 pounds of chicken per capita each year, says WattPoultry.com. That's more than anywhere else in Central America. “Fifty percent of the population eats it three times a week,” he says. ■

BIG idea Jey De Leon refuses to staff his Popeyes restaurants with ex-KFC employees because he wants to instill his own style of service.



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Health-care benefits can give a competitive advantage in recruiting and retaining employees in a tight labor market. But as health-care expenses continue to outpace inflation, chains are finding it difficult to absorb those costs. To contain expenses while offering coverage employees will use, companies are turning to consumer-driven health-care products that shift more of the costs and decision-making to employees.

“Employers are asking employees to become partners in controlling health-care costs and getting the most value from the health-care dollar,” says Mike Murphy, a member of the Society for Human Resource Management Total Rewards/Compensation & Benefits Special Expertise Panel.

1 HMO VS. PPO Some human-resources professionals say coverage from health maintenance organizations is on the way out in favor of preferred-provider-organization plans. Because they are driven by co-pays, a low flat fee for services, HMOs don't give employees a good idea of health-care costs. On the other hand, PPOs have a deductible and co-insurance, in which employees pay a percentage of the bill.

“We don't expect HMO to last forever,” says Stacey Frederiksen, director of human resources at San Diego-based Pat & Oscar's, which offers HMO and PPO plans. “We've got to be prepared for the more consumer-driven plans, which have a high deductible. Gone are the days where regardless what the doctor does, you pay \$10.”

2 MEDICAL SAVINGS ACCOUNTS To get employees thinking about the true cost of health care, many companies offer medical savings accounts to help pay for out-of-pocket medical expenses.

For example, 150-unit, Austin, Texas-based Carino's Italian offers health reimbursement accounts and flexible spending accounts. HRAs are funded by employers, not employees. Although the

funds roll over to the next year, employees forfeit them when they leave their companies. FSAs allow employees to contribute money into accounts tax free. However, if they don't use all the money within the year, they lose it.

With health savings accounts, employees and employers may contribute funds into the employee's account. Employees may take the money when they leave their jobs, and the funds roll over into the next year. But to qualify for an HSA, employees must enroll in a high-deductible plan.

San Diego-based Garden Fresh Restaurant Corp., parent of 34-unit Souplantation and 69-unit Sweet Tomatoes, will transition to a high-deductible PPO tied to an HSA in three years. “It's a friendly alternative to managed care,” says Director of Compensation and Benefits Lisa Sorce. “It allows everything to be transparent online with regards to the cost for medical services, the cost of prescription drugs.”

3 WELLNESS PROGRAMS Wellness programs that emphasize prevention and health are another way to reduce costs. They usually include programs such as smoking cessation, paying for preventative care, and reimbursement of health-club memberships.

“We are definitely trying to push wellness because we believe that wellness prevents disease and disease is what's expensive,” says Devona Haslam, senior director of human relations at 114-unit, Tulsa, Okla.-based Mazzi's Italian Eatery, which offers health-club reimbursements and is looking into other wellness programs.


4 LIMITED-BENEFIT HEALTH PLANS While salaried employees have access to these plans, hourly workers usually don't. Instead, many chains offer them limited-benefit health plans. These low-cost, controversial plans cover routine medical care such as doctor visits, lab tests and prescriptions, but they don't offer catastrophic coverage and have low liability caps. ■



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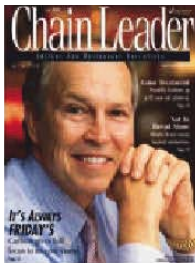
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Executive Vice President of Marketing Brad Haley says CKE is not creating big burgers for bigness' sake, but to make QSR food more like sit-down restaurant fare.



Big, Fat, Sexy

CKE remains unapologetic for developing indulgent food targeted at hungry guys.

CKE Restaurants makes no apologies for food upgrades that add fat and calories or for the sexy ads that sell them. The Carpenteria, Calif.-based company, which operates 1,162 Hardee's and 1,923 Carl's Jr. restaurants, reports 2008 same-store-sales increases of 2.5 percent for both chains. *Chain Leader* gets the strategic update from Brad Haley, executive vice president of marketing, who oversees research, concept and product development for Hardee's and Carl's Jr.

How does it feel to be the bad boys?

As long as people respond to it, it feels pretty good. But we're not trying to develop big burgers just for bigness' sake. We decided several years ago to upgrade the quality of hamburgers that were available in fast food to make them more like the ones you get at sit-down restaurants. If that means they have more fat and calories, we aren't apologetic about that.

You attribute some of [your sales increases] to commercials that are a bit edgy. Can you talk about that?

We've had a few that raised some eyebrows, but our target is what we call young, hungry guys. These guys are interested in a lot of things, including women and hamburgers, and, ah, various other things. Consequently, we're not shy about featuring a little bit of sexuality in our ads.

We used Paris Hilton in an ad. She was in a sexy bathing suit, washing a car and eating a Spicy Barbecue Thick-burger from Hardee's. It was a hot and spicy burger, and Paris looked hot and spicy in the ad. Her tagline at the time was, "That's hot." So it came together strategically.

Of the big burgers you've been promoting, which have been most successful?

Something that we've pioneered in the fast-food industry that [talk-show host] Jay Leno jokingly referred to as "meat as a condiment" burgers on the *Tonight Show*. We started with the Pastrami Burger at Carl's Jr., which was literally a pastrami sandwich on a hamburger. And we followed that up with a Philly Cheesesteak Burger and a Prime Rib Burger. We slice the cheese steak, prime rib, etc., and put that on the burger.

Your CEO, Andy Puzder, has been quoted saying that our industry shouldn't be telling people what to eat, but rather figure out what people want and give it to them. Has that changed at CKE?

I don't think it has changed at all. We don't make things that we want to sell. We make things that people want to buy. And people want to buy hamburgers. If fast-food consumers were only interested in salad and fruit cups, then you'd see several thousand chains that sell salads and fruit cups.

What about your new "breakfast as big as our burgers" campaign?

We did research and found that a lot of people felt that fast-food breakfast sandwiches really weren't that filling, that they often have to get more than one. Equating the Carl's Jr. breakfast menu to the burger menu was a quick way to let consumers know that what we're offering at breakfast really will fill you up. The first offering was the Monster Breakfast Sandwich, and it's selling very well.

Where does CKE go from here?

We intend to stay the course. The philosophy of bringing casual-dining quality food to fast food has really permeated a big chunk of our menu. There are still a few areas we're looking at. ■



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