

# Chain leader®

## TREND-FORWARD INSIGHTS TO BUILD BRANDS

Save on building  
so you can still  
grow. PAGE 16

POS technology  
helps Stevi B's  
reduce waste. PAGE 26

Lower food cost  
while providing  
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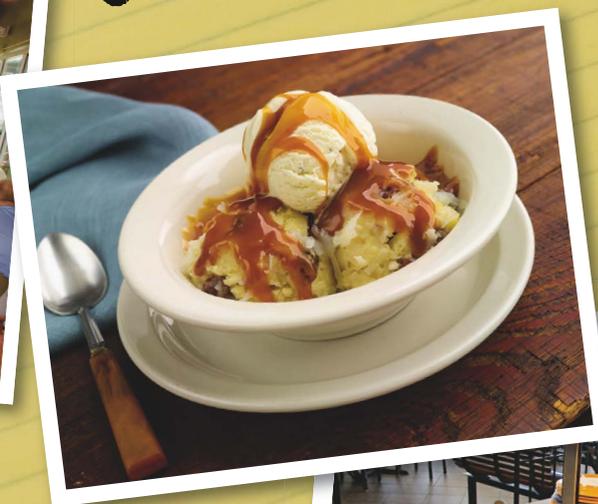
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wherever they can  
without hurting customers.

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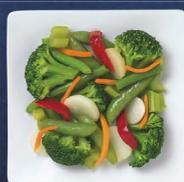
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**roundup**



# BARGAINING Power

Consumers are using more coupons and other money-saving deals, and restaurant chains are responding.



**C**oupon use is up after many years of decline, says the Promotion Marketing Association's Coupon Council, and restaurant-specific research shows a common theme.

research, which asks consumers about quick-service restaurant use and attitudes, the incidence of using a special deal or promotion is up for third-quarter 2008 over the same period in the prior year (20.8 percent vs. 15.5 percent). The figure has been higher each quarter of 2008: 18.5 percent in second quarter, and 17.6 percent the first quarter.

In the third quarter, 41.1 percent of respondents learned about the deal via direct-mail fliers, a percentage more than double the amount in the same period in 2007 (20.2 percent). Other top sources of awareness include banners or signs at the restaurant (cited by 24.5 percent), television (23.1 percent) and newspapers (18.2 percent).

## WIDER RETAIL SPACE

Port Washington, N.Y.-based NPD Group's Consumer Spending Indicator finds that 57 percent of respondents are cutting back on dining out. The November results on how they use sales and coupons in retailing have not changed significantly since July. In November 29 percent said they would be likely to take advantage of sales; in July, the figure was 28 percent. There was no change in the percentage who said they would be likely to use coupons. ■

**BIG idea** Promote deals on your Web site. Many consumers start online when deciding which restaurant to go to. Allow them to download coupons, but be aware that manipulation and distribution is easy, so train order takers to examine them for fraud.

## CONCERNS

Chicago-based restaurant consultancy Technomic Inc. reported that two-thirds of consumers say they are "very concerned" about the economy, and another 27 percent say they are "somewhat concerned." More than half (53 percent) said they would eat at or from restaurants more often if their personal economic situation were to improve, and 59

percent said they would spend more.

In the meantime, 58 percent of consumers said that money-off coupons would be the most likely way to get them to order more often; 52 percent would be persuaded by a coupon for buying something and getting a second item at a discounted price; 49 percent, combo meals; 48 percent, all-you-can-eat offerings; 42 percent, endless bowls of soup, salad or pasta; and 38 percent, limited-time offers on popular items.

Almost half of the respondents (48 percent) said they use special deals more often than they have in the past.

## QUICK TRANSACTIONS

According to San Clemente, Calif.-based Sandelman & Associates' quarterly Quick-Track

## VALUE ADDED

*Foodservice Equipment & Supplies, Chain Leader's sister publication, surveys foodservice operators each year as part of its industry forecast. Results show that 46.6 percent of chain operators' traffic is down from 2007 and 24.3 percent are flat. When asked what their operation is doing in response to the challenging economic environment, a greater percentage of chain operators (80.6 percent) said they were adjusting their menu strategy to include "value" items than independent operators (73.7 percent). The methods named were:*

Response	Chain	Independent
Adjusting menu strategy to include "value" items	80.6%	73.7%
Adjusting staffing levels	81.6%	71.2%
Adjusting portions	42.7%	43.9%
Investing in labor-saving equipment	17.5%	15.6%

Source: *Foodservice Equipment & Supplies* 2009 Industry Forecast Operators Survey



**ON THE WEB:** For additional information on the 2009 Industry Forecast Operators Survey, visit [www.fesmag.com](http://www.fesmag.com).

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## ISSUE THEME

### Cutting Costs, Protecting Margins

Every month this year, *Chain Leader* will build each issue around a pressing topic. This month, we look at costs and margins. From the menu to design and construction, chains are finding ways to trim costs without hurting the customer experience.



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By David Farkas

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By Lisa Bertagnoli

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By Lisa Bertagnoli

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By Monica Rogers

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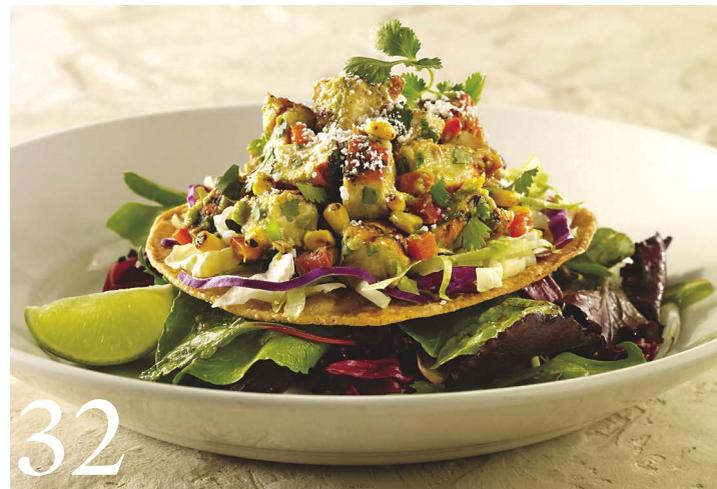
By Mary Boltz Chapman

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Pizza My Heart and Cuba Libre Restaurant and Rum Bar are using the Web to tailor their marketing messages at a fraction of the cost of traditional marketing.

By Margaret Littman



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- Surviving the Downturn: Panel discussions with industry leaders on the economy, menu prices and more
- Charlie Morrison implements a turnaround strategy at Pizza Inn

## HOW TO GROW TO 100 UNITS

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- Restaurant consultant Kevin Moll on what to outsource
- Jim Parish of Parish Partners on preparing a concept for sale

## PLUS

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

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Chain Leader (ISSN 1528-4999) (GST #123397457) is published monthly by Reed Business Information, 8878 S. Barrons Blvd., Highlands Ranch, CO 80129-2345. Reed Business Information, a division of Reed Elsevier, Inc., is located at 360 Park Avenue South, New York, NY 10010. Tad Smith, CEO; Jeff Greisch, President, Chicago Division. Chain Leader® is a registered trademark of Reed Elsevier Properties, Inc. used under license. Circulation records are maintained at Reed Business Information, 8878 S. Barrons Blvd., Highlands Ranch, CO 80129-2345. Phone: (303) 470-4445. Periodicals Postage paid at Littleton, CO 80126 and at additional mailing offices. POSTMASTER: Send address changes to Chain Leader, P.O. Box 7500, Highlands Ranch, CO 80163-7500. Publications Mail Agreement No. 40685520. Return undeliverable Canadian addresses to: RCS International, Box 697 STN A, Windsor, Ontario N9A 6N4. E-mail: [subsmail@reedbusiness.com](mailto:subsmail@reedbusiness.com). Chain Leader Copyright 2009 by Reed Elsevier, Inc. Address subscription mail to Chain Leader, 8878 S. Barrons Blvd., Highlands Ranch, CO 80129-2345. All Rights Reserved. PRINTED IN THE USA. Reed Business Information does not assume and hereby disclaims any liability to any person for any loss or damage caused by errors or omissions in material contained herein, regardless of whether such errors result from negligence, accident or any cause whatsoever.

# Cost of Arrogance

**G**reetings from Illinois, where the weather is often—and currently—snowy and the politicians are often—and currently—crooked. As I write, the media is speculating on when or if Gov. Rod Blagojevich will resign amid a hatful of allegations including that he tried to sell Barack Obama's former Senate seat to the highest bidder.

Is there a switch that goes off in the heads of those who become wealthy, powerful or famous? Something in his brain told Blagojevich that he was above the rules and deserved the power and benefits that politics could bring.

And he's not unique. Many politicians and businesspeople have admitted to legal and ethical violations such as using

national media coverage and others are just the topic of gossip.

There are even more examples of industry leaders who may not be technically committing any violations but still have an overblown sense of entitlement. My mother would say they are too big for their britches.

Like the chain executive who said his suppliers would have to reduce prices, or he'd just go find other suppliers. And the executives who say, there's nothing wrong with my concept—all our problems are based on the economic environment, and we don't need to change.

With the high costs of business, we can't afford that kind of arrogance.

## INVISIBLE COST-CUTTING

This issue is devoted to the ways operators are making cuts wherever they can,

except where it might hurt the customer. On the menu, they're promoting smaller portions and getting creative with ingredients already used. In design, luxurious finishes within guests' reach

balance less expensive elements away from sight lines. To save on purchases, they're analyzing not only what customers buy, but what they themselves throw away. And they are asking for help from landlords, consultants and new owners.

Humility is not the opposite of confidence. It does not mean belittling yourself or being humiliated. It means being free from pride and self-assertion, putting yourself in a state to improve.

The executives and companies that are going to come out of this recession will be the ones willing to look in the mirror; challenge their assumptions; and focus on the customer, the brand's integrity and its core values. ■

**Industry leaders with an overblown sense of entitlement will miss the opportunity to learn how to maintain and even build business during tough times.**

official resources for personal reasons, having affairs with people who report to them, or hiring someone based on reasons other than their work skills.

## SOME OF OUR OWN

We have examples of all these things in the restaurant industry, unfortunately. Some of them are well-known due to



# BIG ideas

**"Arrogance diminishes wisdom."**

—Arabian proverb

**"The truest characters of ignorance are vanity and pride and arrogance."**

—Samuel Butler

**"Pretend inferiority and encourage his arrogance."**

—Sun Tzu

**"To be humble to superiors is duty, to equals courtesy, to inferiors nobleness."**

—Benjamin Franklin

**"Humility is no substitute for a good personality."**

—Fran Lebowitz

**"If I had any humility, I would be perfect."**

—Ted Turner

*Mary*  
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CHAIN LEADER is published monthly for executives of multiunit restaurant companies by Reed Business Information, a division of Reed Elsevier Inc. Subscriptions are \$109 per year in the United States, \$131 per year outside the United States.

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## Road Trip

For years Cold Stone Creamery held its annual franchise meeting in Las Vegas. This year, as President Dan Beem and his executive team were planning the content, they decided to change the format.

"We wanted to save them money and get with them in smaller groups to have more interaction; we decided to take the annual franchise meeting to them in the form of town hall meetings," Beem explains.

The Scottsdale, Ariz.-based company hired a tour bus, wrapped it in the Cold Stone brand, and on Nov. 3 embarked on a tour that would take them to 16 cities over 11 weeks, with a holiday break in the middle.

Beem says they are laying out the vision the team has crafted to bring each of the 1,350 stores' average



unit volume to \$500,000 from 2007's \$353,000. He says the smaller format enables the executives to drill deep into the vision, reduces the time franchisees are away from their stores, and creates dialog between the franchisor and franchisees.

Globally, Beem says, "franchisees are looking for a leadership team that has their best interest in mind, and they're looking for a plan." Specifically, the team outlined Cold Stone Creamery's six-point plan, which includes marketing enhancements, better program tests and rollouts, focus on the customer experience, community involvement, more frequent franchisee communication, and incremental sales.

Beem says Cold Stone will build sales with core product innovation; strategic partner alliances that will offset Cold Stone's seasonality and daypart limitations; a kids program; a certified catering program and an 800-number and online cake ordering system; and a value offering, to be tested in Atlanta by year-end.

**The Cold Stone Creamery executive team—(from l.) President Dan Beem, Director, Area Developer Operations Brian Kiel, Vice President of Marketing Suzanne Schutz and Vice President of Operations Brad Nielsen—is taking a 16-city tour, outlining its vision for the concept.**

—Mary Boltz Chapman

## BACK OF THE HOUSE

# Red Lobster Fuels Its Menu

Orlando, Fla.-based Red Lobster is now counting on wood-fired grills to boost traffic and sales. Launched in early November at a cost of \$10.5 million, the grills give customers healthful menu options. *Chain Leader* recently grilled Senior Executive Chef Michael LaDuke about how he got the massive project off the ground.

### Describe the change in kitchen equipment at Red Lobster.

We went into all 680-plus restaurants with the grill manufacturer to figure out if we could retrofit existing grills to burn wood or if we had to put in new grills. We kept the same format, an open-top grill, not a broiler, and really tried to leverage what our crews know about grilling and tried to teach them a bit more about wood grilling.

### What did the manufacturer sell you?

We went to [our grill manufacturer] with a challenge: We want to wood-fire grill. Does this mean we have to buy all new grills for 680 restaurants or can we work with existing ones? We went through a number of different designs and finally came up with one where we could add whole logs to the bottom of the grill and with the assist of gas produce the nice steady burn we get with oak.

### Where did the wood-fire testing take place?

We had grills in our test kitchens, and [the manufacturer] sent us some kits and grills. We also had some stack broilers from another company that we looked at to determine if we could retrofit those. We ended up moving them out and going with one kind of grill.

**Red Lobster's "grill masters" now have the ability to grill proteins, including fresh fish selections, over American white oak.**

### What were some of the challenges at this point?

Myself and the other chefs brought logs in to watch them burn. One big consideration was designing a grill and then discovering the logs burn out every 30 minutes. Having to change logs during volume is not a great thing.

—David Farkas

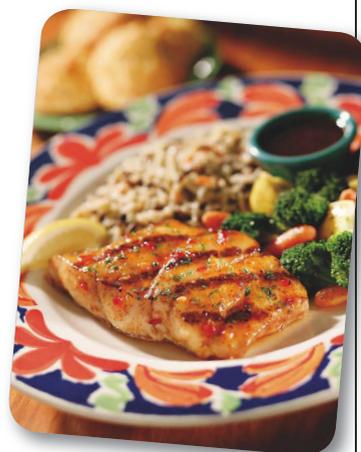


Photo: Red Lobster

# Sometimes what's old is **new** again

Case in point: Noodles & Company, the 200-unit, fast-casual chain based in Broomfield, Colo., is rolling out a new “signature dish” to its menu: Spaghetti & Meatballs.

The dish debuted in Colorado in December and will reach



menus nationwide this spring. It is the first new noodle dish the company added to the core menu since 2004.

The Spaghetti & Meatballs, \$5.25 for small, \$7.25 for regular, features marinara sauce and Parmesan cheese. But Executive Chef Ross Kamens says the meatballs—a blend of pork, beef, garlic, Parmesan and Italian herbs—make the dish

The five meatballs are served over a bed of spaghetti noodles with a crushed-tomato marinara sauce, available in regular or spicy, and are garnished with Parmesan cheese. Meatballs also can be added to any of Noodles & Company's 18 menu items and are recommended with Wisconsin Mac & Cheese, Penne Rosa or Mushroom Stroganoff.

Other old-is-new items recently added to chain menus:

- Family-dining giant Denny's brought its holiday pies out for the season. The traditional favorites, pumpkin, pecan and apple, are priced from \$6.99 to \$9.99.
- Not a new item, but Southern California regional concept Farmer Boys is offering the classic egg dishes that make up its breakfast menu all day.
- Add San Diego-based Jack in the Box to the list of quick-service chains now offering breaded chicken on a biscuit. This one, the Homestyle Chicken Fillet (\$2.99), also is available in “ranch,” with bacon, Swiss cheese, lettuce, tomato and ranch sauce (\$4.29).
- In fall, T.G.I. Friday's added Prime Rib Stroganoff—prime rib sauteed with red onions, mushrooms and lasagna noodles in creamy brown sauce, topped with sour cream and green onions—to the Right Portion, Right Price menu of items between \$5.99 and \$9.99.
- And IHOP brought mozzarella sticks out the mothballs and updated them as Monster Mozza Sticks, extra-thick cheese sticks coated with Italian breadcrumbs, fried and served with marinara sauce. —*M.B.C.*

## BLOGS

## TALKBACK

## PODCAST

## When a Good Concept Goes Bad

As restaurants see sales decline and struggle to maintain margins, it's tempting to slash costs and tinker with the concept even if it means sacrificing brand integrity. But take a lesson from Grady's American Grill. In his blog post “The Demise of Grady's,” industry veteran Lane Cardwell recounts how this once high-flying concept crashed and burned after Brinker International diluted the brand.

A former Brinker executive, Cardwell was involved with Grady's when Brinker bought the casual-dining chain in 1989. The concept was known for made-from-scratch cooking, high-quality ingredients, big portions and motivated employees. But by 1995, Grady's lost its identity and points of differentiation.

“Almost monthly I use some element of Grady's as an example of how you can lose a good concept by trying to make it a

‘better’ concept,” writes Cardwell. He shares some of the lessons he learned firsthand:

- Changing a successful concept's name multiple times confuses customers.
- Replacing premium ingredients and large portions with lower-quality ingredients and smaller portions betrays customers.
- Cutting quality means employees can no longer tout to customers what made the concept successful in the first place, eventually demoralizing employees and prompting key members of management to quit.

Learn how you can avoid the mistakes that plagued Grady's under Brinker's tenure. Check out Cardwell's blog, *The Next Big Thing*, at [www.chainleader.com](http://www.chainleader.com). —*M.N.*

ON THE MONEY

# SURVIVAL of the Fittest



“Part of the bounce we have seen in last few weeks is the reality beginning to hit that stocks like Brinker are not in economic trouble.”

—Bryan Elliott

**B**ryan Elliott of Raymond James has been following chain restaurants for 25 years. *Chain Leader* recently asked the Atlanta-based senior research analyst, who covers casual-dining stocks, to peer into his crystal ball and reveal the carnage in store for sit-down eateries.

## What's the outlook for sales and earnings for the companies you follow?

Based on Knapp-Track, which is the best available data, total aggregate spending by consumers in casual dining was down 2 to 3 percent in October and November. That follows three months of flat [spending]. That's the first time we've not had growth in spending in the history of the category. That has never happened.

## What are the implications?

Like many industries that sell to consumers, too much capacity exists for lower-level businesses to survive. Weak restaurants must close.

## What's your forecast, then, for '09?

That's a question of the depth and duration of the recession, and it is too early to do much more than guess. My working assumption is for shrinking aggregate demand in the first half and a flattening out in second half. I believe there is a baseline level of demand for casual dining.

## What's the baseline look like?

We have already washed out all the economically sensitive consumers for whom it's a bit of a stretch to go to casual-dining restaurants. We're now left with heavy users, who are affluent and often dual-income families with school-age children with very busy schedules.

## Where won't these people be able to dine?

The victims are mom-and-pops, sole proprietorships and very small chains in suburbia, which

are closing their doors as we speak. That type of restaurant is still about a third of casual dining, and they have the lowest margins and least staying power.

## Where does that leave struggling public chains?

They will be the survivors despite stock market investors, who lately have been valuing them at levels that have a measurable risk of bankruptcy.

## Among casual-dining companies that you follow, which has the greatest potential for bankruptcy?

There are a couple that have borrowed too much money, but I would prefer not to say who they are.

## Will there be a capacity reduction for even the best-performing chains?

There will be a slight trimming, but I do not expect wholesale closings, say of even 5 percent of the system, among the better-performing national chains.

## Which chains can be described as “better-performing”?

Most of my list, actually. Certainly Darden, Brinker, Red Robin, Texas Roadhouse, California Pizza Kitchen, P.F. Chang's, Cheesecake Factory, Buffalo Wild Wings, Cracker Barrel. None of them, even beaten up Ruth's Chris, is going to have a meaningful percentage of their units that are cash-flow negative—even at the depth of the recession.

## Who will be the winners and losers in 2009?

I have “buys” on most of the stocks I cover. The basic theme is, these stocks have fallen to prices that overdiscount the risk of serious financial problems for the companies. —D.F.

**IN THE WORKS:** Elliot predicts a worldwide recession will trip prices for costly commodities like beef as demand lessens.

## MAKE your bonus

**TITLE:** Vice President of Human Resources

**BONUS OBJECTIVE:** Develop benchmark and go-forward plan to match the gender and ethnic makeup of store-level employees with their communities.

**STEPS:** Follow equal opportunity laws at every step to ensure a fair and appropriate pipeline of candidates.

- Measure the current work force. Incorporate sex and race into records in the employee database.

- Research the cities or neighborhoods where restaurants operate. Demographic analysis can be outsourced or achieved with off-the-shelf software. Evaluate public sources such as government census data and local chambers of commerce.

- Interview the general managers or franchisees of the units that best reflect their communities' diversity to learn best practices. Talk to those at the other end of the spectrum about roadblocks.

- An objective look at how employees are treated might reveal cultural habits that are less attractive to women or minorities.

- Examine human-resources practices for recruiting new employees. Is advertising reaching a broad audience? Consider referral bonuses for restaurant workers. If the customer base reflects the community, recruit guests.

## SITE LINES TAKING Off

**B**ruegger's plans to land in more airports this year. Despite the complications, the Burlington, Vt.-based company is aggressively pursuing airport locations, contending that the 290-unit bakery-cafe concept's healthful, portable items fill a need in airport dining.

"Traveling through airports myself and not finding a good choice for breakfast and only slightly better at lunchtime was what prompted me [to open units in airports]," says CEO James Greco.

### TRAVEL HISTORY

Bruegger's opened airport units in the Cincinnati/North Kentucky International Airport in 2007 and Boston's Logan International Airport and Raleigh-Durham International Airport in North Carolina in 2008.

According to Greco, the volumes for the Cincinnati/North Kentucky and Raleigh-Durham units are tracking higher than those of a traditional Bruegger's, which has average sales of \$710,000 per unit. However, the unit in the Boston airport is generating lower volumes than a traditional store. Greco blames its location prior to the security gate; he says customers usually want to pass through the security first before they purchase food.

That's why future units will be located post-security. They will also be situated in the center of the concourse, rather than at the end.

### IT DON'T COME EASY

Getting these units off the ground isn't easy. It takes more time and money to open an airport store because contractors and their supplies must pass strict security clearance. In addition, most airports are situated in remote areas, far from the nearest metro city. So contractors as well

as store employees must travel further to get to the store. "It can be a little bit challenging to find people who want to drive out to an airport every day to go to work," Greco says.

As result, a Bruegger's airport unit, which is about 1,200 square feet, costs about \$400,000—the same for a traditional 2,200-square-foot store. A tradi-



**Because airport foodservice is managed by the airports or foodservice management contractors, Bruegger's must maintain good relationships with them so they will invite the chain to bid for sites as they become available.**

tional unit takes 60 to 90 days to open, while Bruegger's spends 90 to 120 days to build out an airport location.

Despite these challenges, Bruegger's will be opening more airport locations in 2009. Out of the 24 units it will open this year, at least one will be an airport store. The company has submitted bids for six airport locations, but Greco won't say where they are located.

"It's a hard segment to break into," he says. "But now we've got some momentum with these sites that we've got open already. So we hope to be able to grow quickly over the coming year." —M.N.

# Flying the COOP

Sonoma refines its menu and prototype to ensure franchise profitability as it expands.



## SNAPSHOT

### Concept

Sonoma Chicken Coop

### Headquarters

San Jose, Calif.

**Parent Company** Brand Capital, Alexandria, Va.

### Units

**2008 Systemwide Sales**

\$11 million  
(company estimate)

**2009 Systemwide Sales**

\$25 million  
(company estimate)

### Average Unit Volume

\$4.5 million

### Average Check

\$12

### Expansion Plans

At least 6 in 2009

**S**onoma Chicken Coop seems to be off to a good start. The fast-casual, four-unit concept generates an average unit volume of \$4.5 million—a figure usually reserved for casual dining. However, Sonoma has spent the past year refining its unit economics as it gears up for franchised expansion this year.

Brand Capital, an Alexandria, Va.-based private-equity firm, bought Sonoma from its founders in February 2008. The firm attributes the high volumes to a diverse menu of casual-dining-like fare. While rotisserie chicken is the signature item, the concept features about 40 from-scratch entrees, pizzas, pastas, salads and sandwiches. Popular items include Lime Grilled Chicken, \$9.99, marinated in a roasted chile and cilantro sauce.

“Because we have higher quality food and better food choices, we can get a few more bucks for them in this concept, and it makes it very appealing as far as unit economics goes, food costs and the like,” says COO Mark Carter.

### HATCHING A PLAN

Sonoma launched a re-engineered menu in October to drop food costs 2 or 3 percent. It eliminated low-selling, unprofitable items that

contained ingredients that weren't used in other recipes. It also revamped its weekly specials, which make up 20 to 22 percent of sales, to have a gross profit of \$7 to \$9. The format of the menu changed to a trifold from a single-page, double-sided menu; items with high profit margins are in the center.

Sonoma also developed a smaller prototype, opening second quarter, to fit in the inline and endcap locations it is targeting in urban retail complexes. While current units average 10,000 square feet with 150 seats, the prototype is 5,000 square feet with 150 seats. Costs will range from \$1.5 million to build from the ground up to \$500,000 for a conversion. The company says a 5,000 square-foot unit should generate volumes of \$3 million.

### FLIGHT PATTERN

While Sonoma will open one or two more company stores, it is focused on franchising. Of the 20 units in development, franchisees will open at least six in 2009 in New Jersey, New York, California and Florida. The company plans to have 100 stores nationwide in five years. ■

## Food Drive

**T**orrance, Calif.-based Chicken Dijon is improving its menu to better communicate its brand of healthful cuisine and increase the average check to \$8 from \$6.

In summer 2008, the eight-unit chain, which is known for rotisserie chicken and bills its fare as California cuisine with Mediterranean flare, debuted a new three-panel menu board with larger type and food photography for the first time.

Chicken Dijon also introduced a bundling option: soup for \$2 with any salad or a side for \$2 with any sandwich. The company was scheduled to evaluate the success of the new menu at the end of 2008.

This year Chicken Dijon plans to test limited-time offers, kids meals and a few new sandwiches and salads. It is also considering adding another protein such as seafood.

**IN THE WORKS:** To improve productivity, Sonoma is considering prechopped vegetables and premade sauces made to spec.



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# Getting BUY IN

Emerging chains work with vendors and colleagues to save money on purchasing.

**S**mall, emerging restaurant chains don't have the buying power or economies of scale that large chains do. But that doesn't mean they can't save money on purchasing. Some operators of small but growing chains share the creative buying strategies that help them stay competitive with their larger rivals.

**Ken Cole, CEO, Quaker Steak & Lube Franchising Corp., Sharon, Pa.**

We look to existing suppliers to buy as much

**Kevin Morrison, co-founder and director of culinary, baking and purchasing, Spicy Pickle, Denver**

We've teamed up with a gross purchasing organization. They go out and get a lot of small companies like ours and put them all together, and we all get to share in purchasing power as large companies do. They look for like products amongst the brands. So let's say they have 10 small brands, but we're all buying one brand of mayonnaise. We get that purchasing power. So that has helped us out.

**Bridget Sutton, president, Baja Sol Restaurants Group, Inver Grove Heights, Minn.**

We consolidate our purchases with all of our franchisees at the same time. So for example, on uniforms. We reached an agreement with a vendor to warehouse large quantities of uniforms for us. And then that means we can order 600 shirts at a time, driving down the price per shirt. And we and our franchisees can just buy them as needed rather than laying out a bunch of cash upfront.

Consolidating purchases with all of the units together really does help keep costs down. If you can get your franchisees to agree to use the same vendor to get that best price, a lot of vendors, especially in today's market, are willing to go the extra mile to keep your business.

We really develop a strong relationship with the vendors we do choose. And we work with them on sourcing ingredients, sourcing materials, really streamlining that distribution process to cut down costs. And then if we can piggyback on a larger order that they use for somebody else perhaps, then we look at that. So if we're using a cut of meat, for example, that a much larger chain is using, we'll talk to the vendor and say, "Since you've already got 40,000 pounds of this coming in per week, can we piggyback on that?" And we're adding 5,000 pounds a week to that big order to get the same price.

product as we can. An example: We buy [one company's] ketchup, yet we were buying a marinara sauce from another company and soups from another company. So we said, "What if we combine and use your soups and your marinara sauce along with your ketchup? Since we're buying multiple products, how can you then reduce the price of the ketchup, for example, which we use a lot of?" So that way you have fewer suppliers you're buying more items from or fewer manufacturers that you're buying more items from. And then by using that leverage, they'll typically give you a better price.



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**John Clay, CEO, Bread and Company, Nashville, Tenn.**

We've reduced our food cost this year by 3.5 percent by more effectively managing our waste and having better tools for managing our internal ordering process. And we've done that by implementing some software that predicts what our usage is going to be. And that's really helped us to get much better control over what our inventory levels need to be. It does the work for us in analyzing the last six Mondays vs. the upcoming Monday. So getting that information in a timely manner and having the algorithms that are in the software do the math for us has really reduced the amount of time that our managers sit in front of their computer trying to figure out what their order needs to be for the upcoming day or two. And it's resulted in much more accurate ordering so that we sell out things less frequently and waste less.

**Randy Murphy, president and CEO, Mama Fu's Asian House, Austin, Texas**

It's not really just trying to get a lower price from our purchasing mechanism. But for us it's also looking at preparation and things within the store.

Maybe it's a sliced protein. Should we consider getting it unsliced and slicing it ourselves? That's one of the big costs reducers that we implemented this year. All of our proteins are fresh, but we stopped having it presliced and we saved a tremendous amount of money. So we're able to look at the type of product we get in, thereby lowering our purchasing cost tremendously.

We also did that with some of our napkins. We have a very high-quality napkin. We found lots of time people would grab a stack of napkins, put them on their table, use one of the four they grabbed, and then we have to throw all of them away. So what we decided was, hey, let's pre-roll those, thereby increasing the sophistication and have them available on the tables already. We implemented that about a month ago, and we've seen a significant drop in paper costs. ■

**BIG idea** CEO Ken Cole of Sharon, Pa.-based Quaker Steak & Lube is lowering costs by reducing the number of proprietary items the chain uses by more than half. "For example, we had a proprietary marinara. Well that's great if you're Olive Garden," he says. "For a wing restaurant, why do we have to have a proprietary marinara?"

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# Profit MOTIVES



Savvy operators like Spicy Pickle continue to create value by making sure unit-level economics provide a solid return on investment. (Above) It is replacing \$4,000 beverage coolers with ice-filled tubs.

In early November, Jack Butorac was feeling bummed out at a Las Vegas restaurant conference that focused on financial performance. Admits Butorac, CEO of Toledo, Ohio-based Marco's Pizza, which operates and franchises 175 pizzerias: "It was depressing to talk to some of these folks. They really have challenges out there." Butorac doesn't? Apparently not. Marco's intends to open 61 restaurants this year, most run by franchisees. "We feel good," he declares.

He wasn't the only operator *Chain Leader* talked to who said their companies were still adding restaurants—albeit at a slower rate—amid the wreckage of the economy. However, when asked if they were taking measures to ensure unit-level economics still provided a superior return, nearly all said yes.

## CREATIVE GATHERINGS

"Our buildings are very expensive, and we are always working on ways to keep costs down," says Lamar Bell, senior vice president of finance and development at Raleigh, N.C.-based buffet concept Golden Corral. The chain intends to open a half-dozen "pavilion" models, which run about 14,000 square feet.

For the last several years, Bell has been holding two-day meetings in new units with the company's suppliers and builders, asking them

to examine the building for cost-saving ideas. He says his goal is to determine if there's "a way to get 90 percent of gain for 50 percent of the bucks."

So far, most of the workable ideas involve less expensive finishes and more efficient HVAC. Bell, who says the rate of unit-level returns hasn't changed in 20-plus years, nonetheless insists, "We're not dumbing anything down in this current environment. We are not taking one thing away from the customer."

That's become one of the biggest challenges for operators as margins have deteriorated. Customers, worried about job loss and housing values, have steered clear of restaurants since summer. Third-quarter same-store sales, for example, declined across all industry segments. Despite an uptick in consumer confidence in November, to 44.9 from 38.8, job losses for the month totaled 533,000, the highest monthly total since 1974.

"Consumers remain extremely pessimistic and the possibility that economic growth will improve in the first half of 2009 remains highly unlikely," announced Lynn Franco, director of The Conference Board Consumer Research Center, which publishes the Consumer Confidence Index.

#### MINUTIAE MATTERS

The recession is forcing Spicy Pickle COO Tony Walker to evaluate every aspect of his franchise business. He recently eliminated a new pizza program and a \$3,000 backup meat slicer from the Denver-based fast-casual sandwich shops. Pizza failed to spark nighttime sales, and the slicer was deemed a luxury.

Now Walker wants to trim \$50,000 to \$75,000 from new builds. "This is our No. 1 goal. We are going line by line, asking, 'Do we need this?'" he says. A \$4,000 beverage cooler sitting next to the register got a thumbs down. It was nice to have but inefficient, recalls Walker, adding that without a top, the device was "constantly cooling itself down." Walker is replacing it with



To maintain margins, management at Marco's Pizza is looking for ways to trim the cost of the "Tuscan" stones surrounding archways in the new prototype.

## Checklist for a More Productive Kitchen

To help offset the significant de-leveraging brought about by the consumer pullback in spending, operators are combing through restaurants looking for ways to trim costs and boost sales. To help in that effort, we asked operations expert Mark Godward, president of Miami-based SRE, a restaurant consultancy, to offer a productivity checklist. How many of these have you considered?

- Evaluate cooking equipment in light of shifting product mixes (for example, more burgers, less steaks). Turning off certain burners, oven cavities or portions of grills may allow cooks to work in smaller, more efficient "triangles."
- Consider bringing expeditors into the cooking area to help with final assembly and possibly extending the volume of orders to avoid adding another cook. Keep in mind ingredients may have to be shifted from one side of the pass to the other.
- Eliminate, if possible, a food-prep position by making food prep the responsibility of station cooks.
- Prep fewer items. For example, if business is slower, cook chicken to order for a salad instead of microwaving a precooked portion.
- Time plating so every guest in a party gets food simultaneously at perfect temperature. This alone can drive sales.
- Determine whether you could close the kitchen a half-hour before unit closing to avoid post-closing labor costs.
- Get employees involved by soliciting suggestions for increasing sales and reducing costs. Always test their ideas first.

## GROWTH STRATEGY

“In the current environment, we are not taking one thing away from the customer. We are offering them more.”

—Lamar Bell, senior vice president of finance and development, Golden Corral

**In April Burgerville (above) will open its first new unit in six years, a prototype that will incorporate less expensive building materials and a smaller kitchen layout.**

**BJ's units average \$1 million in tenant improvements, about one-fourth of the total \$4 million investment package.**



a self-draining, ice-filled tub. He will have to extend the millwork at the register to accommodate it. “It will be a fraction of the cost,” he claims.

Butorac is going through a similar drill. He's counting on a beverage vendor to install coolers in the counters in Marco's new prototype.

Despite reporting systemwide same-store sales of 4 percent in the third quarter, Butorac is taking no chances. He has asked his team to do a better job purchasing, especially of a stone finish used extensively in the Tuscan Village prototype. Last year, he launched a “seating program,” adding 16 seats at a cost of \$5,000 per unit. The result, he boasts, is an additional \$1,000 a week in revenue. “We're approaching things a little differently, finding ways to help franchisees generate profits by building sales,” he says.

### LANDLORDS' LARGESSE

On the company side, Butorac is happy with the rent deals he is landing. “Most of our stores are in strip centers, and we have been able to negotiate very good rents,” he says. “Some of these deals were too expensive a year ago.” In some cases, he adds, landlords have even offered tenant-improvement contributions amounting

to half of the unit's \$125,000 construction cost. “It's not reflected in the rent. I don't know how they do it,” Butorac declares.

Rents have dropped dramatically as retailers, including restaurants, have hit the expansion brakes. Today landlords are using a variety

of aggressive marketing gambits to lure successful chains. “Caps on common-area maintenance, tax abatements, tenant improvements, really anything in their arsenal are being used,” says financial strategist and former Brinker International CFO Jim Parish.

Among recipients of such largesse is BJ's Pizzeria & Brewhouse. CEO Jerry Deitchle says landlord contributions are crucial to maintaining returns at the 83-unit casual-dining chain. “Over the long run, we can only grow our way to financial success in a highly productive, efficient and leverageable manner,” he explains. Leverage is the key when it comes to new builds. The Huntington Beach, Calif.-based chain now averages \$1 million in tenant improvements, equal to roughly one-fourth of the total \$4 million investment package.

### SYSTEMATIC APPROACH

This year Deitchle will re-evaluate seating and kitchen layouts, though he insists he doesn't intend to trim investment costs but instead boost productivity. BJ's will roll out a “manager dashboard,” for instance, in the form of a flat-screen monitor. Placed in kitchens, it will show real-time data as each shift progresses. The company already uses a kitchen-display system, Web-based labor scheduling, table management and theoretical food-cost software.

Systems are also important at Burgerville, which is opening its first new restaurant in six years, in Tigard, Ore., in April. CEO Jeff Harvey says the Vancouver, Wash.-based chain, which operates 38 restaurants, has finally addressed



**BIG idea** Spicy Pickle COO Tony Walker is combing the market for used equipment, which is often selling at 30 cents on the dollar. “Instead of buying a \$1,500 cooler, you spend \$500 for it,” he says.



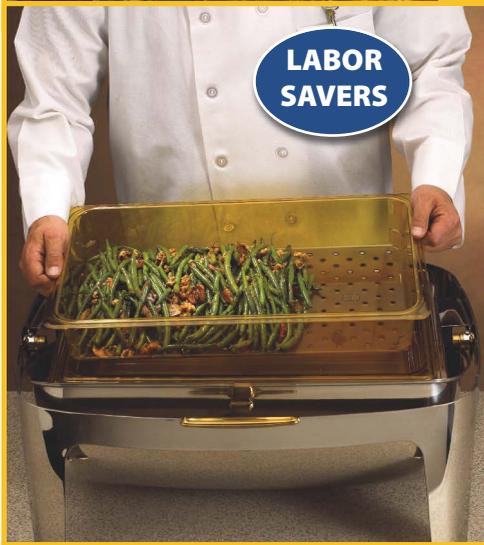
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## Mixed Reviews for Benihana's Revitalization Program

**B**enihana's prototype, launched in 2005, was designed to improve unit-level economics at 24 of the 60 teppanyaki restaurants. Although the Miami-based company initially saw sales go up with the new prototype, it could not sustain the momentum over time.

The units badly needed help. "[Founder] Rocky Aoki didn't want duplicate restaurants, so there were no standard designs or operating procedures," says restaurant analyst William Hamilton, who covers Benihana for SMH Capital Partners in New York. (Benihana officials did not reply to several requests for interviews.)

The company, which budgeted about \$2 million per unit, sped up the revitalization in fiscal 2006 to get the jump on a burgeoning trend for Asian food. "We are committed to revitalizing our 40-plus-year-old Benihana teppanyaki concept for a new generation, while simultaneously generating a solid return on invested capital for our shareholders," officials announced in a filing at the time.

According to Hamilton, the company expected remodeled restaurants to boost sales by 10 percent and gain a 15 percent return on invested capital. "Early on, they were hitting the numbers," Hamilton says. But not for long,

stymied by construction delays and a slowing economy. Guest traffic declined 6.3 percent in Benihana's most recent quarter, ended Oct. 12, 2008.

One costly issue involved the highly trained teppanyaki chefs, who had to be relocated to other restaurants while theirs were being gutted. In a November conference call, President and Chief Operating Officer Juan Garcia finally called it quits. "We have put that chapter behind us," he said of the revitalization program. The company ended the program just two units short of the original 24.

Says Hamilton: "Overall, the program was a success, but it wasn't quite the success they had initially hoped for."



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labor scheduling in a systematic way. "We won't be opening [restaurants] at a high pace and then managing down to a lower pace because now we have the ability to manage cost," he says.

The Tigard restaurant will be Harvey's first opening, though he has remodeled one unit so far. An engineer by training, he says he was hired in 2004 to create new systems. That achieved, he is also redesigning the restaurant. "We are maximizing dining rooms and minimizing kitchens," he says. The new 2,600-square-foot-prototype features a drive-thru and wood finishes instead of costlier brick, widely used in the other restaurants. Units average \$1.8 million, Harvey says.

"My main message is, given what we know about the economy, we prefer to take a little more of an aggressive approach," he offers. "We're not about to cut the part of our business that brings in the money."

Which is?

"New restaurants." ■

**on the web:** BJ's and Golden Corral are offering more to their guests in new stores. Visit [www.chainleader.com](http://www.chainleader.com).

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# STEP

Picking and choosing at each phase of the design process helped Finagle Bakery Cafe **STICK TO THE BUDGET** for its new look.

# by step



1. Finagle's maroon logo inspired the color palette, more expensive-looking than its previous white-bright interior.



2. Wallpaper emblazoned with brand-enhancing messages was too expensive to use everywhere, so the designers limited it to high-visibility areas.

The addition of "Bakery Cafe" to the awning helps reposition Finagle from quick service to fast casual.



## SNAPSHOT

### Concept

Finagle Bakery Cafe

### Location

Cambridge, Mass.

**Designer** King-Casey, Westport, Conn.

### Opening Day

Sept. 26, 2008

**Area** 2,500 square feet

**Seats** 48

**Average Check** \$4 at breakfast, \$8 at lunch

**Unit Volume** \$1 million (company estimate)

### Expansion Plans

2 retrofits in 2009

Outfitted with rich wood finishes and deep colors, the new Finagle Bakery Cafe in Cambridge, Mass., certainly looks expensive. And it looks far different from its predecessor, a utilitarian cafe with white tile, stainless steel and bright fluorescent lighting.

Yet the prototype, opened last September, cost about the same to build as the older incarnation, discounting one-time costs such as design services.

That wasn't easy; it required a year's worth of back-and-forth with its design firm as well as tough choices regarding fabrics, finishes and fixtures. "You have to pick and choose," says Finagle co-owner Alan Lichtman, who with his wife, Laura Trust, bought the 20-unit bagel concept 10 years ago.

Lichtman says that Finagle, formerly known as Finagle A Bagel, needed to update its utilitarian look





3

**3. Two separate lines, one for breakfast and one for lunch, speed service at Finagle Bakery Cafe.**

**Better merchandised product is helping Finagle sell more of its signature bagels.**

to keep pace with other fast-casual concepts, whose comfortable decor encourages lingering with laptops and lattes. “We have always focused on food, food,” Trust says. “We realized we had to change the environment to meet the expectations of our guest.”

### GOOD ENOUGH

The couple hired King-Casey, a Westport, Conn.-based design firm, to work on the prototype. One mandate: Reposition the brand beyond its quick-service bagel reputation, says King-Casey principal Tom Cook. The other: Keep to a budget of \$600,000, only slightly more than the total building costs for an older Finagle restaurant.

Throughout the design process, King-Casey presented Trust and Lichtman with what Lichtman calls “good, better, best” choices. In many cases, opting for “good” saved 50 percent or more on costs. One example: booths. King-Casey originally presented booths made in three parts: a bench, a back with a

double cushion (one for the lower back and one at neck level), and a fencepost-type end cap. Working with a booth manufacturer, Cook devised a two-piece booth with a single back cushion that cost half as much as the original design.

Another example was lighting. The design team’s original idea, a network of \$900-a-piece glass pendants and a track-lighting system, was priced at \$30,000, according to Lichtman. The alternative was glass-looking, durable plastic pendants that cost about \$200 each and recessed wall-washing lights, which saved the installation costs of track lighting.

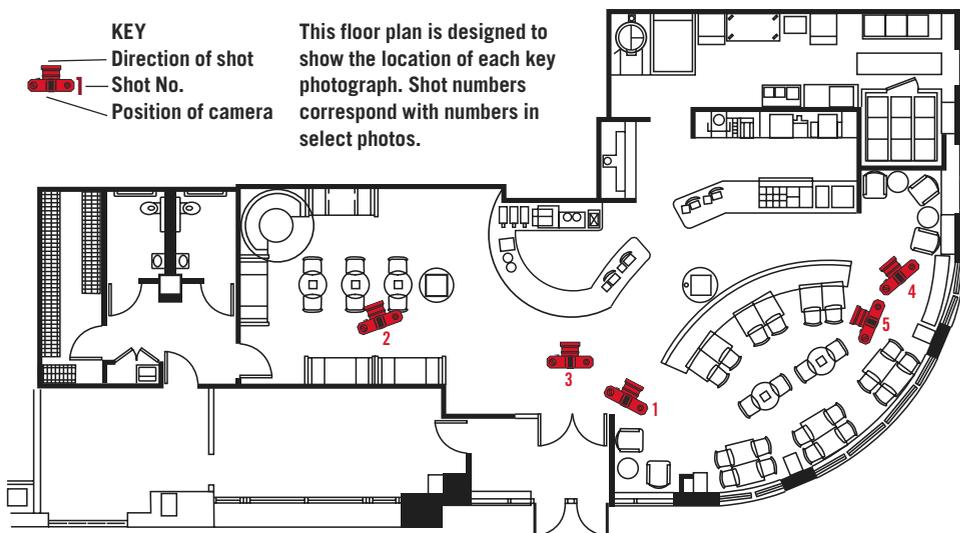
Lichtman also chose carpet tiles, which are easier and cheaper to replace than roll carpeting. A product configured in square-meter tiles cost less than square-foot tiles. Along similar lines, ceramic tile in the ordering area was placed at right angles, not on the diagonal as originally specified, to save money on installation. And using Corian, rather than Finagle’s traditional marble, for countertops also saved money on product and installation.



Finagle scrimped on utility doors and carpet, but splurged on restroom finishes and fixtures.

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

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



### THE OCCASIONAL SPLURGE

In several instances, Lichtman chose a more-expensive alternative on Cook’s advice. “He said, ‘Stop skimping, you have to trust me,’” Lichtman recalls.

The best example is wallpaper emblazoned with branding slogans such as “fresh baked” and “made from scratch.” King-Casey designed the paper and originally meant it to cover the entire wall surface. The cost to produce the wallpaper and install it over window casements and around pipes proved too high; the alternative was to put the wallpaper in high-visibility areas, such as the dining

**BIG idea** Some design choices helped Finagle save on installation costs as well as the cost of product. For example, using Corian, rather than Finagle's traditional marble, for countertops helped the company save money on product and installation.

room, from the chair rail to the top of the windows. Limiting use of the wallpaper saved about 50 percent on production and installation.

Lichtman also acquiesced on restrooms, which, Cook says, he wanted to be as utilitarian as possible, with stainless-steel fixtures and white finishes. However, "we know the importance of restrooms, particularly to female customers," Cook says. Instead of a basic restroom, the team carried the color palette of the dining room into the restroom. It saved money by using 6-inch square floor tile on the walls. "That eliminated a secondary specification and really integrated the bathroom with the rest of the space," says John Chrzanowski, design director at King-Casey.

Lichtman and Cook compromised with doors: The unit has high-quality doors on the restrooms, but budget-friendly doors, painted the same color as the walls, on utility closets.

**END RESULTS**

Cost savings will continue as Finagle opens more units and retrofits existing restaurants. The wainscoting below the chair rail will be downgraded from wood to laminate. The laminate costs less and requires less wall preparation, Chrzanowski says. That and other adjustments, such as factoring out the initial design fee, will move the cost of future restaurants to \$400,000 to \$500,000, in line with the cost of the older restaurants.

Lichtman and Trust are pleased with the results. The unit seats 48, the same as older locations, "but it's a more comfortable 48," due to booths, which are new to the concept, Lichtman says. Because product is merchandised more effectively, the store is selling more baked goods, in addition to its signature bagels. Plus, the restaurant is getting more lunch and light dinner traffic.

"Guests now believe we sell more than bagels," Trust says. "The store is doing exactly what we wanted it to do." ■



**Finagle's lighter fare includes several salads.**

**4. Older Finagles have acoustic ceilings; the new look sports a less-expensive, blacked-out ceiling.**

**5. Plastic pendants cost around \$200 each; the design team originally specified \$900 glass pendants.**



4



5

# Counting PROS

Stevi B's waste-reduction technology has succeeded in **CUTTING FOOD WASTE**—and food costs.

Employees count every single food item, from an entire pizza to a single breadstick, before putting it in the trash can. The information is loaded onto a database at the end of each night.

## SNAPSHOT

**Concept** Stevi B's  
**Headquarters** Atlanta  
**Units** 30  
**2008 Systemwide Sales**  
\$27 million\*  
**Average Unit Volume**  
\$950,000  
**Average Check** \$14.96  
**Expansion Plans** 10 to 12  
units in 2009

\*Chain Leader estimate

**T**hroughout the day, employees at Stevi B's, the Atlanta-based chain of pizza buffets, stand by the trash can with food pulled from the buffet line and a worksheet. By hand, they count each item and record it on the sheet. At the close of business, all the information is entered into a POS system's database, which crunches numbers on the uneaten menu items.

It's elementary, but it works, says Seth Salzman, senior vice president of corporate operations for 30-unit Stevi B's. "Anytime you have something printed in black and white, it makes it a little more undeniable," he says. "You can say, 'Wow, in a week's time, we threw away 25 entire pizzas.'"

Simply counting wasted pizzas and entering numbers into a database hasn't lowered food costs at the chain; systems devised after analyzing the waste have. "In the buffet business, there's a certain amount of waste, no matter what you do," Salzman says. "If you're smart up front, you can control it."

#### REDUCING WASTE LINES

The tracking system is simple. No matter what is thrown out—an ounce of pasta or a single breadstick—it's recorded on a "waste sheet" in each back of the house. At the end of the day, a manager transfers the information from the sheet to the chain's new POS system. The POS system assigns a food cost to each menu item, enabling managers and staff at headquarters to see how much money, in the form of wasted food, was thrown away that day.

Recording what's been tossed has led Stevi B's to make several operational changes. For instance, waste-sheet analysis revealed that the kitchens were producing too much pizza during slow periods. Now staff makes half-pizzas during slow times and skips some pizzas such as a chicken Alfredo entirely because the sauce doesn't permit making of a half-pizza. Staff also bakes a



**Stevi B's added black containers and several low-cost ingredients such as canned pineapple and garbanzo beans to improve salad-bar margins.**

**The new POS system was rolled to all 30 Stevi B's locations in late 2008.**

# TECHNOLOGY



**Data analysis sparked a new pizza-arrangement system: Lower-food-cost items are put on the buffet first.**

smaller version of the dessert sweet-roll pizza.

Along similar lines, the analysis showed that some pizzas went uneaten because they didn't hold up well under the buffet lights. The ground beef on a taco pizza dried out. The lettuce on a BLT pizza wilted. Those

pizzas are no longer in regular rotation but are available on demand, Salzman says.

## A NEW ARRANGEMENT

Stevi B's also used the waste sheets to devise a new pizza arrangement on the buffet. Now pizzas are arranged on the buffet in order of food cost—low to high—with the idea that customers will load up first on the lower-cost items. That means the kitchen won't have to produce as many, nor toss as many, of the higher-cost pizzas.

The exception is the chain's signature loaded baked-potato pizza, a high-food-cost item that goes on the buffet first. "It really gets people

**BIG idea** Stevi B's plans to link its POS system with distributors for easier purchasing and inventory management.



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Stevi B's franchisees predict food costs will shrink further as employees get used to waste-control systems.

interested," Salzman says of the pizza, adding that an employee is on hand in "greater position" to explain the buffet and the pizzas to new customers.

Franchisee Steve Snelgrove is "amazed" at how well the buffet-arrangement system works in cutting food waste. He predicts that waste reduction will improve more once it becomes second nature to staffers. "It's hard to remember to put them in the right spot, especially during rush times," Snelgrove says.



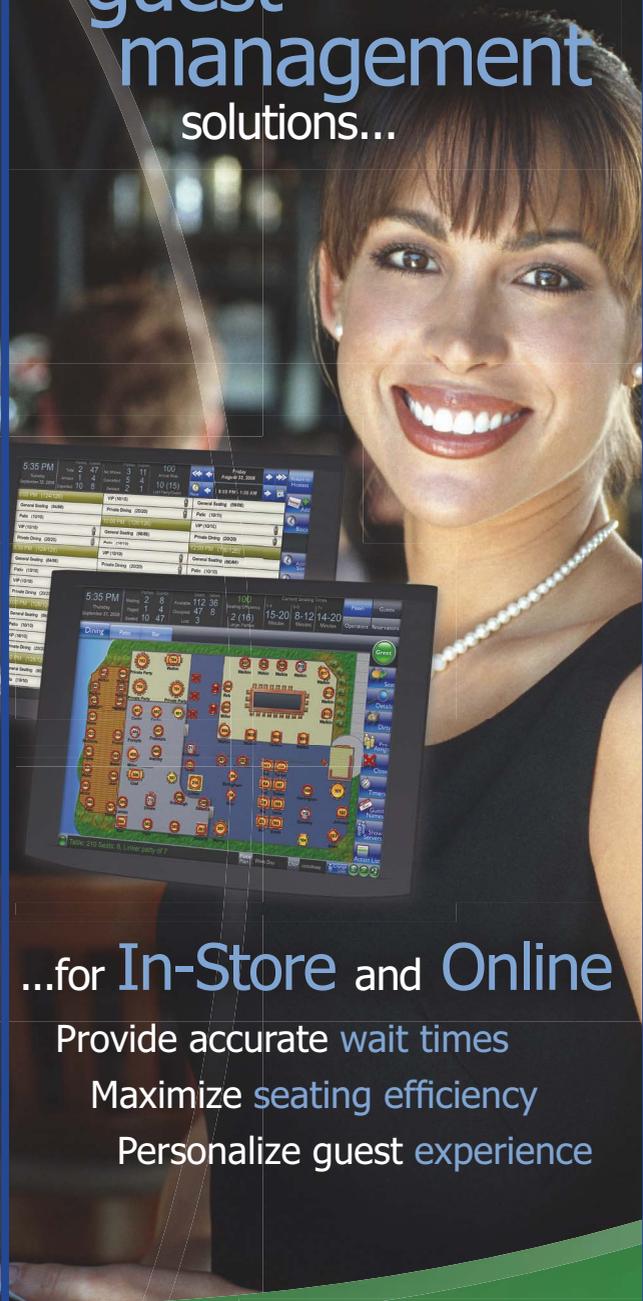
**The exception to the buffet-arrangement rule is the high-food-cost Loaded Baked Potato Pizza, which doubles as a marketing effort.**

The recording system helps as well, adds Snelgrove, whose restaurant, a single unit in Buford, Ga., installed the POS system in October. Since then, food costs have dropped a point. "We're still working out the bugs," Snelgrove says, explaining that employees are getting used to the additional task of tallying wasted pizzas.

#### TRADING UP

The POS system represents a new technological age for the 12-year-old concept. Only in the last two years did the company begin replacing cash registers with electronic POS

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Thanks to food and labor savings, Stevi B's expects a one-year return on investment on its new POS system, which cost \$15,000 per store to install.

systems, and only in 2008 did corporate require franchisees to have such systems, Salzman explains. Even so, the previous POS system was "a fancy cash register and also a time clock."

The system didn't track food costs, nor did anyone else, by anything other than purchases, Salzman recalls. About 10 months ago, the chain inaugurated a spreadsheet-based inventory program that tracked food costs based on the cost of sales, not just purchases.

That helped account for frightening errors, such as one by a franchisee who thought his monthly food costs were off by 20 percent: "He based food costs on deliveries, and he had had five deliveries that month instead of four," Salzman recalls. "His food costs weren't off—it was the process."

The new POS system is a custom design now in all five company and 25 franchised locations. It cost \$15,000 per store for both installation and equipment (two terminals, each with a printer, and a back-office system). Salzman expects an ROI of a year or less.

## FUTURE BENEFITS

Salzman also expects to ramp up the system's use, integrating it with the chain's distributors for easy purchasing and inventory control, and also keeping track of real food costs. For instance, the system will be able to track the food cost of a cheese pizza based on real-time prices of cheese, flour and other ingredients.

"At the end of the day, it's the analytics," says James Davella, director of foodservice equipment and design at Boston-based Shawmut Design and Construction. But Davella cautions that counting uneaten pizzas is only one side of the waste-control equation. "Portioning dough, toppings—that's more crucial than counting what's wasted." ■

**on the web:** Noodles & Company's waste-management system encompasses more than the kitchen. For more details, see "Covering the Bases" at [www.chainleader.com](http://www.chainleader.com).

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# chain leader Quick Service Reporter

A new monthly newsletter from *Chain Leader*

With business-critical coverage of such topics as improving service, packaging and promotions, and a regular feature on technology, **Quick Service Reporter** delivers insights and tactics specifically geared to limited-service restaurant operators.

The screenshot shows the newsletter's layout. At the top, it features the 'chain leader' logo and the title 'Quick Service Reporter' with the date 'December 9, 2008' and the website 'chainleader.com'. Below this is a navigation bar with icons for a burger, a burrito, and a salad. The main content area includes a 'THIS ISSUE' section with links to 'Franchisee Relations: Cold Stone Execs Take a Road Trip', 'Screen Test: Online Training', and 'A New Brand Vocabulary at Culver's'. A featured article titled 'Franchisee Relations: Cold Stone Execs Take Road Trip' includes an image of a Cold Stone creation and text about a franchise meeting. There are 'Read More' links. An 'ADVERTISEMENT' section for 'BLOGS' promotes industry insights. A 'DATA POINT' section shows a green bar chart for '39.5%' representing the percentage of quick-service pizza customers who used a special deal. Another 'ADVERTISEMENT' section promotes a 'Franchise Developer' tool. A 'Screen Test: Online Training' section describes Marco's Pizza's new training tool. A 'New Brand Vocabulary at Culver's' section mentions a 'Culverization' campaign. On the right side, there is a vertical advertisement for 'eBurger' newsletter, featuring images of burgers and the text 'NEW! from R&I' and 'Featuring: trends, toppings, service styles and more!'. At the bottom of the ad is the 'R&I RESTAURANTS & INSTITUTIONS' logo.

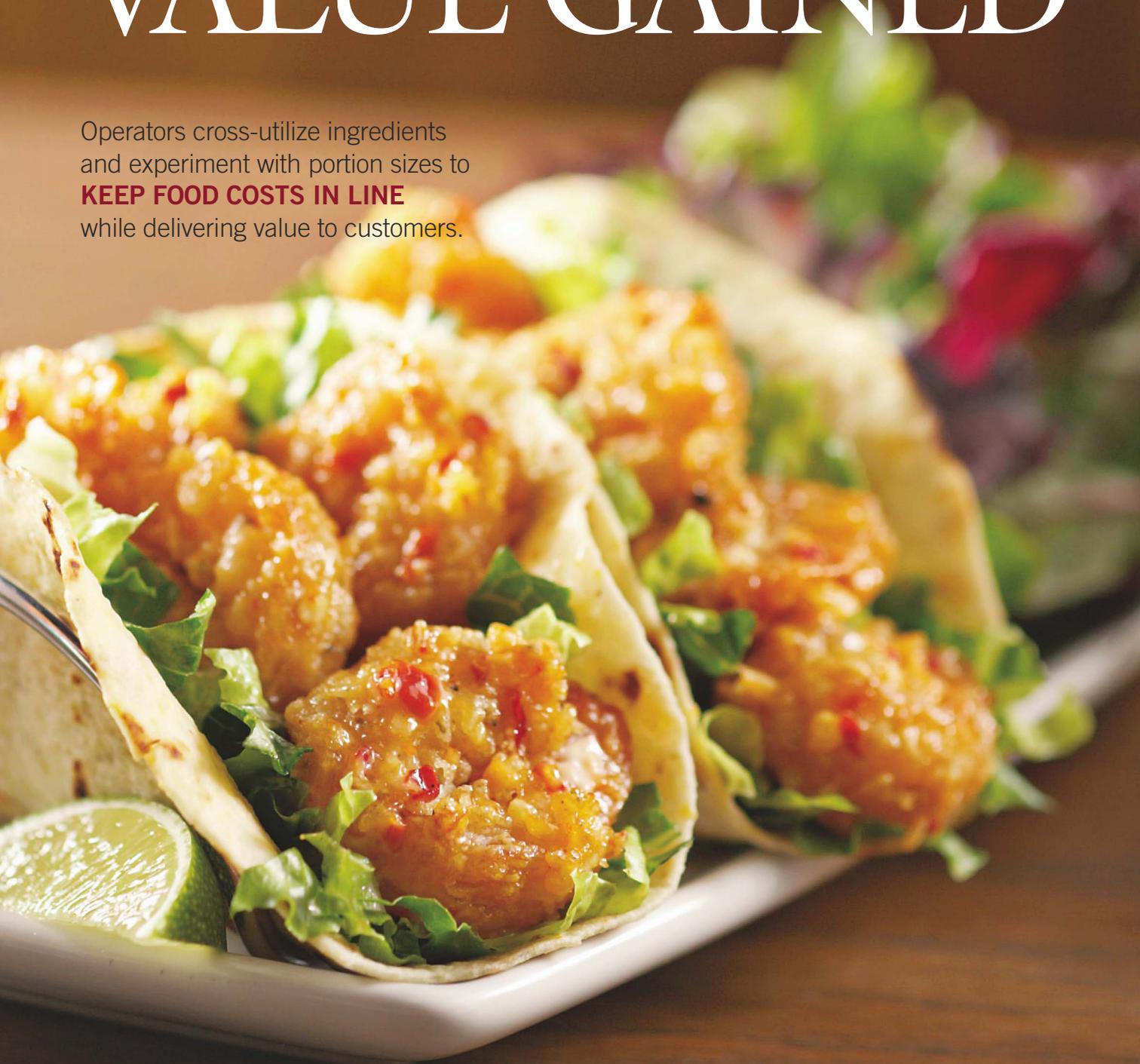
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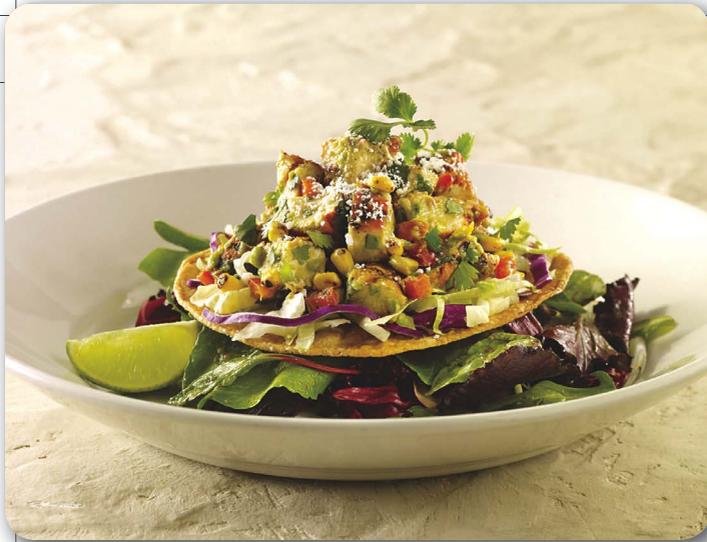
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# Value Added; VALUE GAINED

Operators cross-utilize ingredients and experiment with portion sizes to **KEEP FOOD COSTS IN LINE** while delivering value to customers.





onnaise as the binder, Skversky substituted guacamole. Roasted corn salsa was added for spice and texture. And the chicken in the dish is the same product used for fajitas and quesadillas. “But this is the first time we’ve done a dish where the chicken is served chilled,” Skversky says.

Cilantro-Lime Chicken Salad

ran for 12 weeks last summer

and generated close to 3.5 percent of the menu mix, making it one of the company’s top three LTOs of the year. After its reprise as an LTO this month, the dish will move to core menus.

#### NEW COMBINATIONS

Similarly, Chevys’ Shrimp and Sweet Corn Tamalito appetizer, \$9.99, borrows its chipotle-sherry cream sauce from an enchilada recipe. The tamalito (corn pudding) that forms the base of the appetizer is used as a garnish for other entrees. And rather than source new items for a new sauce, Skversky blended tomatillo sauce and guacamole to make Avocado Salsa. The salsa tops Chevys’ new Carnitas Tacos included on the El Paso Combo plate, \$13.99, featured as part of the El Flavinator limited-time offer this month.

Moe’s Southwest Kitchen is also keeping food costs in line through cross-utilization tactics. “My goal is to create new items without adding new products,” says Dan Barash, director of research and development for the Atlanta-based, 400-unit, fast-casual chain.

**Key ingredients in Chevys’ Cilantro-Lime Chicken Salad—guacamole and achiote-marinated chargrilled chicken—are featured in other dishes on the menu.**

**The Philly Cheese-steak Burrito at Moe’s uses ingredients like grilled sirloin flap meat that the chain already had on hand.**

**As guest interest in building tapas-style meals grows, restaurant chains are developing more small-plate options like Bonefish’s Bang Bang Shrimp (opposite).**

**A**t a time when it takes big value to get cash-strapped guests in the restaurant door, food-cost control couldn’t be more important. Strategies for how to control the cost of value meals vary: QSRs quibble over how much cheese and meat to include on dollar-menu burgers. Fast-casual and casual-theme operators create new dishes from ingredients already in the inventory. And full-service operators shape tapas-like menus and modest-portion and -price menus that fit well with guest desires to eat more quickly and healthfully at a lower price.

“In this climate, the value proposition drives business,” says Alan Skversky, director of research and development for Cypress, Calif.-based Chevys Fresh Mex, a Real Mex Restaurants concept with 94 units. “If somebody gets in the car and drives over to eat at Chevys, it is important that we deliver on the value promise. At the same time, we have to be sure what we roll out keeps food cost in line and has a profit margin.”

With a creative juxtaposition of existing ingredients, Chevys is doing just that. Featured in a current limited-time offer, Cilantro-Lime Chicken Salad, \$10.99, is a blend of roasted corn salsa, achiote-marinated, chargrilled chicken and guacamole. Chicken salad was the inspiration for the dish. But rather than use may-



## NEW PRODUCT PIPELINE

**Adding potential profit and cutting food cost, Cracker Barrel saves the bread from hollowed out bread bowls to make Cracker Barrel Bread Pudding, \$2.99, featured through February.**

**Texas Roadhouse developed a smaller version of its Cactus Blossom appetizer. The Baby Blossom uses a smaller onion that yields slightly lower food costs and is faster to prepare.**

Barash developed The Philly Cheesesteak Burrito with ingredients Moe's already had on hand. Set for a second-quarter launch, the burrito includes green peppers, mushrooms, rice, onions, queso, grilled sirloin flap meat and shredded cheese. "It's a completely new taste for Moe's, but it's put together by cross-utilizing ingredients already in the system, which keeps costs down," says Barash.

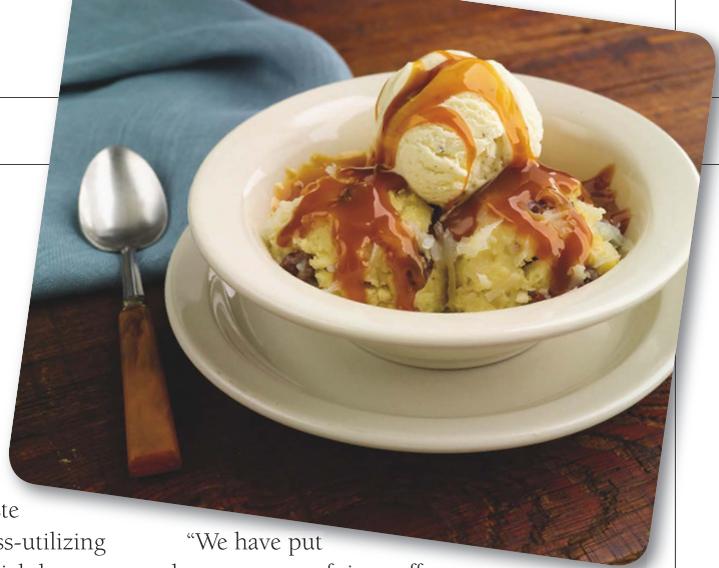
Moe's January/February LTO features a junior-sized Joey Bag of Donuts burrito (choice of chicken, steak, pork, ground beef, fish or tofu, with black or pinto beans, rice, pico de gallo, shredded cheese and lettuce), made with a 10-inch, rather than 12-inch tortilla, plus chips, salsa and a drink for \$5.99.

"We've been working for a while on offering our kid-sized burrito bundled with chips and drink as a special value for adults that want a smaller meal value price," says Barash. The new Jr. Joey is a little bigger than the kid-meal option, which is made with an

8-inch burrito. Barash explains that the Joey Jr. bundle works well for tweens and adults who want a little more than a kids-sized burrito, but not as much as the regular burrito.

### BALANCING ACT

In the polished-casual category, Calabasas, Calif.-based The Cheesecake Factory is battling to rebuild guest traffic at its 144 stores with eight special-value meals priced from \$12 to \$14 rather than the typical \$16 to \$18. All are made with items already in the company's inventory.



"We have put a huge amount of time, effort and thought into developing dishes that would allow the guest to come in during these difficult times and dine affordably without in any way compromising on the quality of our dishes," says Bob Okura, corporate executive chef and vice president of culinary development.

Launched Nov. 20 on a menu insert card, each dish has risen to the top 10 percent of sales in its respective menu category. Food costs for each of the dishes are in the 22 to 24 percent range, a significant reduction for the chain.

"Normally, our food costs have been in the mid to high 20s, so we really worked hard to make this happen," Okura says.

Early tries with the dishes yielded food costs in the low 30s, Okura explains. "It took a while to determine exactly the right ratio of ingredients that would allow us to fully develop the flavor and visuals needed for each dish." He cites Chicken Bellagio, \$12.95, the most popular dish on the special values menu. With two brioche-crumb-coated and sauteed chicken breasts, a baby arugula salad and thinly sliced prosciutto, the chicken is served with light garlic-pesto sauce. "Every ingredient had to be carefully balanced," Okura explains. "What we found is that, where we may have used 3 ounces of a sauce before, 2 ounces actually was enough."

### NEW VERSIONS OF CLASSIC COMFORTS

A smaller-portion, lower-price strategy is also working for Louisville, Ky.-based Texas Roadhouse. The addition of a modestly sized fried



**BIG idea** Use what you've got, creatively, to keep food costs down. Rather than source new items for a new sauce, Alan Skversky, director of research and development for Cypress, Calif.-based Chevy's, blended two existing sauces—tomatillo and guacamole—to make the chain's new Avocado Salsa.

The Cheesecake Factory engineered its value meals to have food costs in the 22 percent to 24 percent range.

onion appetizer has caused onion appetizer sales to jump 25 to 30 percent. The new Baby Blossom, \$3.49, is about 75 percent the size of the “super colossal” onion used for the regular \$5.99 Cactus Blossom appetizer. “The smaller onion has a slightly lower food cost and is faster to prepare with more consistent results,” says Chris Jacobsen, vice president of marketing.

At Lebanon, Tenn.-based Cracker Barrel Old Country Store, the extra-value proposition for January builds on the 576-unit chain’s equity with homey comforts. Launching Jan. 15, Cracker Barrel’s Hearty Bread Bowl Meals, \$7.49, offer guests sourdough bread bowls filled with 9-ounce servings of Old Fashioned Beef Stew, Heartland Cheese and Chicken Soup or Homestyle Potato Soup, plus a side dish and salad.

Cutting some of the food cost involved, Cracker Barrel will save the bread it hand scoops when hollowing out the bread bowls to make bread pudding. Menu cards promoting the Hearty Bread Bowls LTO from Jan. 19 to Feb. 15 will also feature a photo of the new Cracker Barrel Bread Pudding, \$2.99. To make the pudding, Bob Doyle, vice president of product development and quality assurance, revamped an old Cracker Barrel recipe, including vanilla bean, coconut and raisins in the mix. “We think the coconut brings the right sweetness and balances well with the flavor of the sourdough bread,” he says. Pudding is served topped with vanilla bean ice cream and caramel sauce.

“In January, value is always top of mind,” says Chris Ciavarrà, vice president of brand and menu strategy. “As are items [like this soup, salad and vegetable combo] that speak to health and wellness. The Hearty Bread Bowl meals speak to both, without inflating food costs.” ■

## Roll Call: Small but Substantial

**T**he Cheesecake Factory is one of several chains responding to guest interest in building a meal tapas-style, rather than just ordering one entree. “People like ordering a variety of reasonably priced, tapas-like items and putting them together to make a meal,” says Vice President of Culinary Development Bob Okura.

He created a bar menu of snack-sized samplings of best-selling core menu items at The Cheesecake Factory and sibling concept Grand Luxe Café last year. Based on the early success of that menu, Cheesecake Factory is now testing a small-plates section for the main dining room. Priced from \$3.95 to \$6.95, offerings will include Stuffed Mushrooms, Sweet Corn Fritters, Ahi Tuna Tartare with Fresh Avocado, and Glazed Beets with Herbed Goat Cheese and Baby Arugula.

At Tampa, Fla.-based **Bonefish Grill**, Vice President of Marketing Richard Turer has also seen continued growth in the number of people that like to make a meal of smaller-plate options. “Small plates make up a more significant amount of our sales compared with other dinner houses,” says Turer. He attributes some of this behavior to macro pressures and to guests’ desire for quick, casual meal experiences within the polished-casual setting.

Anticipating a continuation of this trend, in October 2008 the 150-unit chain added petite cuts of fish: Grilled Gulf Grouper,

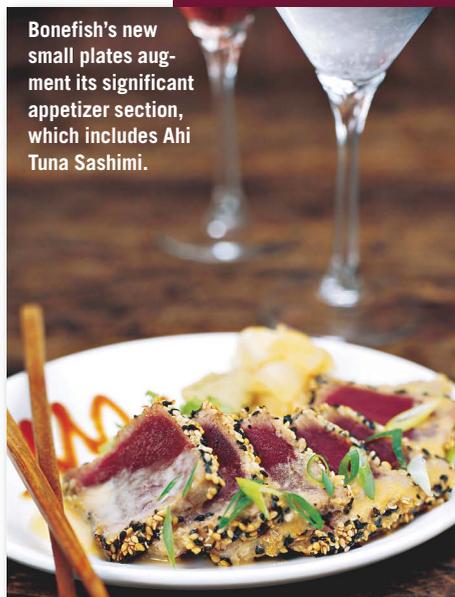
Snake River Rainbow Trout and Chilean Sea Bass will now be served in smaller and regular-sized portions. It also launched a new section called Hand Helds featuring sandwiches, fish and chips, and shrimp tacos, priced lower than typical entrees.

The new offerings augment Bonefish’s already significant appetizer section. “We have had tremendous results with these,” says Turer, “both with loyal users who look at the Hand Helds as a more casual way to experience our food and with light users who can get in and out faster and with a slightly lower check.”

Similarly, Orlando, Fla.-based **Season’s 52** created a steak and mushroom kebab, \$14.95, in

November for guests who want a smaller portion of red meat in less time, for less money. The chain has a \$25.50 tenderloin filet at lunch that takes 12 minutes to cook. The new kebab, which is made with a slightly smaller portion of strip loin meat and served over salad greens with nonfat, béarnaise-style dressing, has lower food cost and is ready in four minutes.

“About 35 to 36 percent of our lunch crowd is interested in creative salads,” says Director of Culinary Development Cliff Pleau. “This salad attracts not just salad eaters, but attracts the male niche that normally eats steak.”



**Bonefish's new small plates augment its significant appetizer section, which includes Ahi Tuna Sashimi.**



Coffee purveyors give customers **REASONS TO ADD ON** to their drink order or add a high-margin drink to their food order.

# Pairing UP

Starbucks teaches customers about its coffee blends, giving characteristics and pairing ideas.

Seattle's Best is promoting its French roast blend (opposite) this winter, along with seasonal beverages.



**C**an you pair coffee and espresso blends with food the way you choose a wine to complement your entree? There is an argument among coffee fans.

Proponents cite the unique flavors and characteristics of coffee blends that mingle better with certain dishes than others. Opponents argue that one doesn't drink coffee with each course, and that the coffee-drinking experience is distinctive and should not be forced into the norms of wine appreciation.

Like it or not, as customers continue their appreciation of coffee, they will look for ways to learn more about it. And wine pairing is a concept they relate to. Coffeeshouses and the growing list of restaurant chains that are upgrading their coffee programs are in a good position to educate their customers, and at the same time sell more of this high-margin beverage.

## DESSERT FIRST

Starbucks-owned, 540-unit Seattle's Best Coffee encourages operators to offer food pairings with coffee. For example, it recommends the Columbian blend with flavors like lemon, butter and nuts, complementing desserts like poppy-seed muffins, nut scones, sticky buns and lemon bars. And the organic French roast, which is described as bold and smoky, pairs well with toasted nuts, chocolate and caramelized sugar, complementing desserts like chocolate chip cookies, cinnamon rolls, snicker doodles and chocolate cake.

The company also releases limited-time specials using the prominent flavors of the season. This winter it's promoting the Peppermint Mocha Trio topped with whipped cream and a sprinkle of peppermint candy; Gingerbread Latte: espresso, steamed milk and gingerbread flavors; and SleighBell Blend, which combines Latin American coffees that are medium-to full-bodied. Prices vary, but a small is about \$3.50; a large, about \$4.50.

The Starbucks brand makes flavor pairings easy on customers who visit its Web site. It suggests customers try its Kenya blend with a berry tart to enhance the black currant and tropical fruit flavors. And it recommends its smoky French roast with toasted nuts or roasted vegetables.

## COURSE WORK

Java City, a 12-unit Sacramento, Calif.-based coffee chain, offers tasting events that include pairing the blends with food. Some restaurants have held dinners in which each course is paired with a different coffee. Chains with significant local-store marketing efforts might find such an event not only educates their customers about their coffee blends but brings in guests on a slow evening. ■



## Roll Call: Food and Coffee Pairings

The Food Network offers a chart listing the characteristics of coffee and the ideal food pairings for coffee from around the world. Here is a sampling.

**Brazilian:** Mild in acidity, with a medium body and complex aroma, this spicy, sweet brew pairs well with almond biscotti or buttery shortbread.

**Colombian:** A medium acidity and strong body mean this rich, sweet, caramel coffee can stand up to carrot cake or zucchini nut bread.

**Guatemalan:** Acid is medium-high and the body is heavy in this rich, chocolaty and smoky bean. Pair it with sliced apples dipped in caramel sauce or chocolate cake.

**Hawaiian Kona:** Medium-high acidity, medium body, fragrant aroma and spicy flavors pair well with oatmeal, oatmeal cookies or coffee cake.

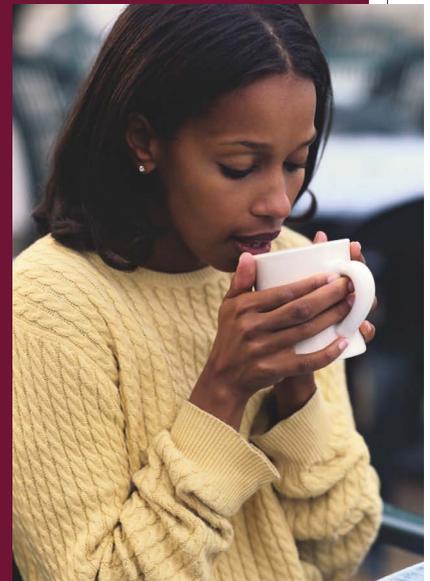
## Coffee Consumption Trends

Young adults are the fastest-growing segment of coffee drinkers, according to the 2008 "National Coffee Drinking Trends," a report by the National Coffee Association. Consumers age 18 to 24 who drank coffee consumed an average of 3.2 cups per day. That figure was 3.1 in 2007 and 2.5 in 2005.

The report also found:

- 17 percent of the adult population consumed a gourmet beverage daily in 2008, compared with 14 percent in 2007.
- The group that grew the most was the 25- to 59-year-old contingent, which comprises 19 percent of daily gourmet coffee drinkers, an increase of 6 percentage points over 2007.
- 61 percent of coffee drinkers say coffee improves their mental focus, and 59 percent say they are more productive.
- Those who drink coffee are more likely to feel the beverage is healthy: 49 percent vs. 36 percent of noncoffee drinkers.

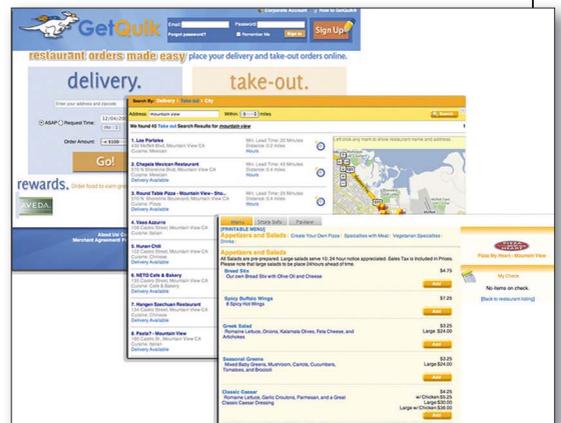
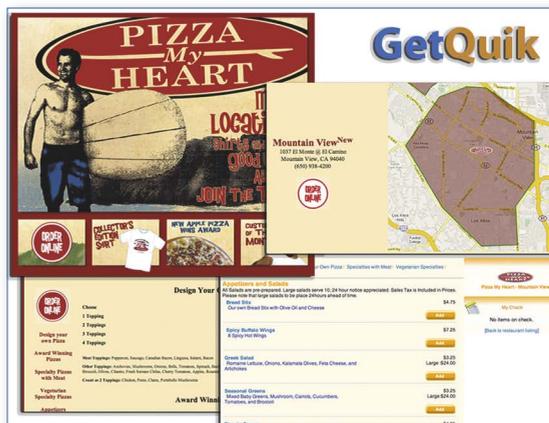
The National Coffee Association reports that such positive health messages are clear drivers of consumption. Questions posed to consumers about the health benefits of drinking coffee and "is coffee good for my health" are both up significantly from 2005 to 46 percent and 36 percent, from 37 percent and 26 percent, respectively.



# Net Gains

Web ordering allows Pizza My Heart to create more **PERSONALIZED MARKETING PROMOTIONS** at a fraction of the traditional cost.

Pizza My Heart teamed up with a third-party online-ordering provider to streamline delivery orders and find new, cost-effective ways to deliver targeted marketing messages. Average check from online orders are five times higher than in-store orders at Pizza My Heart.



Chuck Hammers admits he wasn't enthusiastic about the idea of customers placing their pizza orders on the Web. The founder of Pizza My Heart, a 16-unit, Capitola Beach, Calif.-based chain with an obsessive local following, prided himself on the extensive customer-service training his staff completed, and he wanted customers to benefit from it. But the opportunity to tailor the marketing message while lowering labor costs made him think again.

"I didn't realize that people don't always want that contact. They want the Web," Hammers explains. Corporate customers wanted to order pizza for meetings from the office. The Web sped the process along.

Hammers saw the Web light when Pizza My Heart started working with GetQuik more than a year ago. The Santa Clara, Calif.-based company is a destination Web site, like eBay, where hungry diners go to find and order from participating restaurants (currently more than 100). GetQuik Founder and CEO Ken Ryu estimates that per unit, the average annual GetQuik transaction volume is \$9,000.

## CAUGHT IN THE WEB

In the last six months, Pizza My Heart's delivery orders on the Web rose to 6 percent from 2 percent. In some busy locales, such as a beachfront store, Hammers says he saw customers get in the back of the line, use the Web application on their iPhone to place an order and pick it up by the time they got to the front of the line.

Web ordering also allows customers to see their previous order history, so corporate clients who want the same thing for lunch every month do not need to re-enter orders and do not have to worry about order accuracy. As a result, Hammers thinks 20 percent to 30 percent of

## SNAPSHOT

**Concept** Pizza My Heart  
**Headquarters** Capitola Beach, Calif.  
**Units** 16  
**2008 Systemwide Sales** \$18 million  
**Average Check** \$8 inside, \$25 delivery, \$40 on Web with GetQuik  
**Expansion Plans** 1 or 2 units annually

orders will be online in the next few years. In a pizza restaurant, 80 percent to 90 percent of all orders come in at 20 percent of the time the restaurant is open (lunch and dinner peaks), so having the Web to take some call volume off during prime time has already increased efficiency and reduced labor costs, Hammers says.

### DEALS MADE TO ORDER

More than just the labor savings, Pizza My Heart sees Web ordering as a way to target marketing efforts to specific customers for far less than traditional marketing or even e-newsletters.

"Instead of throwing four or five offers at them, we just send one," Hammers says. Recent offers included two-for-one slices on Friday afternoons and Monday night football specials only ordered through the Web. "They have brought in new customers," he says.

Restaurants pay GetQuik 10 percent per order received through the site, but GetQuik covers the credit card fees, so Hammers says it is closer to 7 percent. He gets detailed data about who ordered when and from where, and there are no monthly fees.

Finally, Pizza My Heart doesn't pay if there is not an order placed. You can't say that for direct mail. ■

## Demonstrating Success

Cuba Libre Restaurant and Rum Bar, a Philadelphia-based chain with three locations, was caught between a rock and a hard place. The chain plans to open two or three units annually in major metro areas and wants to increase name recognition and diner frequency.

But with an average check of more than \$40 for dinner and more than \$20 for lunch, the concept is not really ripe for traditional, value-focused TV advertising.

"I do not feel TV is the best medium for the restaurant," explains Director of Marketing Stacy Schulist. But doing the kind of high-end chef cooking demonstration an independent restaurant might offer may not result in the kind of awareness an expanding chain demands.

Schulist and her team decided to combine those two traditional ideas with new technology such as YouTube to get the cooking demonstration video to lure new diners in.

Timed with the chain's fall 2008 lobster paella promotion, the team videotaped Chef Guillermo Pernot preparing his signature dish. The professionally shot video was posted on Cuba Libre's Web site as well as on YouTube and other free video sites. The wide distribution of the video, which was also picked up by local news broadcasts and other media, drove new guests to Cuba Libre's paella evenings at a limited cost to the chain.

"We saw increased sales of people coming in for paella, which is a special, time-intensive dish," Schulist says. "But, more important, this was another way to let people know about our concept."



**Chef Guillermo Pernot got exposure outside of Cuba Libre's three markets with an online cooking demo.**

Cuba Libre created a paella kit—with pan, rice, shopping list and more—to help diners recreate Pernot's dish at home.



**SAFE AND WARM**

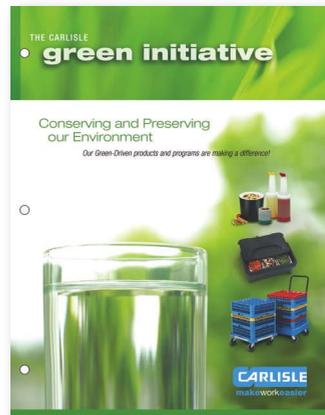


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**DATA POINT**

**53.5%**

of chain restaurant operators invested in point-of-sale systems in 2008, according to *Foodservice Equipment & Supplies' 2009 Industry Forecast Operators Survey*.

**SWEET AND SAVORY**

ConAgra Foods Lamb Weston offers three new varieties of its Sweet Things sweet-potato product line: Sweet Potato Chips, medium-thick Crinkle Cut French Fries and mildly seasoned Battered Dices. Made from high-quality sweet potatoes and containing zero grams trans fat,



all nine Sweet Things products help operators update menus with crowd-pleasing appetizers or side dishes. For more information, call (800) 766-7783 or visit [www.lambweston.com](http://www.lambweston.com).

**ConAgra Foods Lamb Weston**

**FRYING TECHNOLOGY**

Alto-Shaam's FryTech ASF-60G gas fryer, the "little brother" to the FryTech ASF-75G, has earned Energy Star certification. The ASF-60G comes standard with dual solid-state controls and a melt cycle for solid or liquid shortening. Options include automatic basket lifts and deluxe controls with a programmable memory for up to six menu items per lift. For more information, visit [www.alto-shaam.com](http://www.alto-shaam.com).

**Alto-Shaam**



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## Profiles in Growth: Russo's New York Pizzeria

**T**oday's economy won't stifle Brett Steiner's plans for growth. The owner of Russo's New York Pizzeria and Wine Bar in Germantown, Tenn., says that 28 years in the industry has taught him that the most effective growth strategies boil down to one element: the people he deals with every day. From demographic targeting to employee development, "No matter what the economy does, the bottom line is that your growth depends on your people," says Steiner, who opened his first unit

in August of 2007 and plans to expand as soon as he gets the right people in place.



**New York Pizzeria franchisee Brett Steiner says business growth centers on selection and training of employees.**

### **Q: What's the basis of successful expansion?**

**A:** You've got to be consistent before you can grow, and that depends on your people delivering the same experience at

every meal. Your quality assurance and professionalism have to be the same every day; that's what makes the larger chains successful. You're not going to expand successfully into a new location until you're meeting your guests' expectations every time in the first one.

### **Q: How do you foster that consistency?**

**A:** Strong training and development is critical. You must have the right management in place, because it takes real commitment to ensure that you're properly facilitating your concept. We're looking to open several new locations; my only hurdle is, I can't be in two places at one time. I'm hoping to find individuals who are aggressive enough to take ownership in what they do. I have a couple of people on board now who I think can be developed. I just need to see what they can do on their own.

### **Q: How do you communicate your concept effectively to grow sales?**

**A:** No matter what the economy's like, you have to market, because part of being in business is staying in people's faces. Word of mouth is a strong marketing tool. On our comment cards, about 75 percent of people say they heard about us from a friend. We also send out an e-mail newsletter, often with printable coupons attached. It's low-cost and eco-friendly, and it absolutely brings more people in the door.

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*Chain Leader* is published monthly for executives of multiunit restaurant companies by Reed Business Information, a division of Reed Elsevier Inc.



**Vice President of Training Debbie Fox believes the recession offers front-of-the-house staff a chance to enhance service levels at the upscale steakhouse chain.**



## In the Meantime

The lull in business affords The Palm a chance to sharpen service skills.

If business is slower, Debbie Fox believes you need to get busy. The vice president of training for the Washington, D.C.-based Palm Restaurant Group is encouraging managers to use the downturn to drill service staff on basics at the 30-unit steakhouse chain. Fox honed her own skills early on in restaurants owned by her father and grandfather and later in sophisticated Washington eateries. That experience combined with 15 years as a trainer at The Palm is coming in handy, Fox tells *Chain Leader*, as sales and guest counts tumble.

**Let's begin by talking about the impact of the slump. How is The Palm addressing this issue?**

I'm trying to look at the issues affecting the industry as opportunities, telling our [general managers] to use the extra time

they have to focus on training, service and food. I imagine business will be slower this holiday season, though I hope it won't. But the trends suggest we will be slower. The best way to deal with this time is to use it as an opportunity, making sure we are executing better than ever before.

**Can you share any techniques or new ideas you have come across?**

I work closely with other departments, particularly marketing but also operations, culinary and purchasing. We try to work in concert by running promotions and training people and incentivizing them to sell more and to be better at the table.

**Are you having more contests these days and increasing the incentives for employees?**

Yes. You have to focus more than ever on keeping staff motivated to get them to do their best and to sell as much as possible.

**What specific efforts are you making?**

For example, we doubled the "bounty" of our 835 Club, our customer-loyalty program, for December enrollments. For servers to get the double bounty, their restaurant has to reach its monthly goal, let's say 80 members in a month. If they reach it, the server who sells 20 memberships will get double what he is getting to date on every membership sold.

**Has The Palm boosted service levels by other means?**

We've been asking managers to enhance our service, using black napkins for dark-suited guests, decanting wine and serving side dishes French-style [in which food is served from the right side of the guest and finished and plated tableside]. Basically we're saying if you have more time over the holiday season, then decant more wine, French-serve more food, refold napkins when someone gets up to go to the bathroom, write thank-you notes to your call parties, and do more lobster parades to prompt people to buy a large lobster.

**When you hire experienced servers, as you did recently in your new Tribeca outpost, how long does it take to train them in this style of service?**

We do a week of classroom training where I go through shopper reports, points of service and do food shows where servers sample all of the lunch and dinner items. After a week of classroom training, we do a week of "soft" openings, where the staff is waiting on each other, their partners, best friends and family. We also do a week of "50-50s," offering 50 percent off everything but alcoholic beverages. We ask guests to bear with us while we practice service. So there's almost a month to get staff up to speed in the training program. ■

**ON THE WEB:** Listen to or download an extended audio interview with Debbie Fox at [www.chainleader.com](http://www.chainleader.com).

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