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Small but Able: Top 50 Chains Under 50 Units

The Top 50 Chains Under 50 Units reinforce the value of their brands by focusing within the four walls.

By Maya Norris, Managing Editor – Chain Leader, 8/1/2008



The Palm is trying to attract more women and younger guests with a new cocktail program and bar menu that it launched earlier this year.

Casual-dining chains dominate *Chain Leader's* first annual ranking of Top 50 Chains Under 50 Units. From fine-dining to budget-priced concepts, the emerging chains on this list are using various strategies to grow and leverage their brands. Some are moving forward with expansion, while others are pulling back on growth to figure out the best way to operate in an economic downturn. But what they have in common is the use of creative yet disciplined tactics to compete with large national players and deliver a dining experience that connects with customers.

"You can't rest on your laurels. The restaurant chain that is just on auto pilot is headed for extinction in today's society," says Craig Weichmann, managing director of **Mastodon Ventures Inc.**, an Austin, Texas-based investment banking firm that specializes in restaurants. "It's about concentrating on what you can do within the four walls to stimulate some customer excitement."

Value Added

With rising gas and commodity prices, many companies on the Top 50 are offering value to grab what's left of their guests' discretionary income.

Woodland Hills, Calif.-based **Daily Grill**, a 24-unit, upscale-casual chain, began offering a prix-fixe value menu in November 2007. Customers have the option of soup or salad, an entree, and dessert or wine for \$20 to \$24 depending on the entree. About 20 percent to 25 percent of entrees sold come from the value menu.

"We want to give the impression that we have a depth of menu. So if you're a value shopper, you can walk in and out for around \$20 at a Daily Grill," says Philip Gay, president and CEO of parent **Grill Concepts**. "Or if you still want the filet or some other items, they're there on the menu."

Atlanta-based **Bugaboo Creek Steak House** is also trying to play up a value proposition. It debuted two limited-time promotions in spring to drive traffic on weekdays. The Kids Eat Free Tuesdays special offered children 10 and younger a free meal from the children's menu with the purchase of an adult entree on Tuesday nights. The \$12.99 Ribs Day gave customers a deal on Wednesdays on Bugaboo's signature Smoked Baby Back Ribs, an item that is regularly priced at \$17.99.

According to President Kristi Nyhof, guest counts increased during these promotions, but she won't provide exact figures. The 30-unit chain is offering the limited-time offers again from July through August.

While discounting is a viable means of driving traffic, it can also backfire if a restaurant relies on it for too long, disrupting food costs and average checks, Weichmann warns. "You have to make sure that what you're promoting is consistent with the image of where you're trying to drive the chain," he adds.

Raising the Bar



Grill Concepts debuted In Short Order in February. The 450-square-foot, fast-casual unit features soups, sandwiches and salads from its upscale-casual sister concept, Daily Grill.

coming back.

The Palm recently upgraded its **837 Club**, which customers join for a \$25 fee. Members not only earn points for rewards, but they also receive a \$25 gift certificate upon joining, invitations to special events and members-only dinners, and complimentary wine selections and entrees.

This year The Palm redesigned the marketing collateral for the first the time in five years and added new rewards to the 15-year-old program. To cater to its younger customers, the company now has experiential rewards such as trips to Napa Valley, ballooning and race-car driving.

With 100,000 members in the 837 Club, The Palm says it enrolls 2,000 to 3,000 new members monthly. Those members make up about 42



The Gentle Palm, which features whiskey, black tea, pomegranate juice, strawberry puree and maple syrup, is one of the five new cocktails The Palm debuted this year.

Some chains on the Top 50 are trying to enhance and promote their brand image with fresh components such as bar menus to attract new guests.

Taylor, S.C.-based **Fatz Cafe** launched a cocktail program in January that features more wines and new **specialty cocktails**, and a new **dessert menu** in March. The mid-priced, 44-unit chain, which opened five units this year and plans to open another three by year-end in the South, wanted the new menus to bring in more adults and couples. "When folks were going out for family get-togethers, Fatz was a great place," says President and CEO Steve Bruce. "But if a couple of folks were going out before the theater or whatever, Fatz wouldn't be the place they'd go to have cocktails or those desserts."

The alcohol and dessert menu seems to be working in metropolitan locations like Charlotte, N.C., more so than small towns, Bruce says. The dessert offering makes up 4 percent of sales. Bruce says the cocktail program has also driven incremental sales but will not quantify.

The Palm, a 29-unit, white-tablecloth steakhouse chain, also created a bar program to diversify its customer base. The Washington, D.C.-based company introduced five hand-crafted cocktails in April and a small bites menu in May to appeal to more women and a younger clientele. It doesn't have data on whether the new program is bringing in more women and younger customers, but early results show the specialty cocktails make up 3 percent of beverage sales and the small-plates menu accounts for 1 percent of food sales, says Executive Vice President Bruce Bozzi Jr.

Earning Loyalty

Once they get guests in the door, many chains use loyalty programs promising points or prizes to keep them

percent of The Palm's sales, and they spent \$1 million more this year over last year, says Bozzi.

Chattanooga, Tenn.-based **Gordon Biersch** has also seen success with its loyalty program. The 39-unit brew-pub chain's Passport Program has about 55,000 members. While customers like earning points for prizes such as a brewer's dinner or a trip to Hawaii, surveys indicate they particularly like one perk of the program: moving to the front of the line when there is a wait at the restaurants.

According to the company, Passport members average 1.7 visits per month vs. 1.2 visits for the average Gordon Biersch customer. Eight percent of sales come from members of the loyalty program, whose average check is in the \$30 range; the average check of a nonmember is \$24.

Tech Savvy



Newport Beach, Calif.-based Ruby's Diner, the 45-unit, 1940s-themed family-dining chain, has a fast-casual prototype for airports called Ruby's Dinette with a limited menu of burgers, fries and shakes. Smaller than Ruby's typical 4,500-square-foot restaurant, the Dinettes are 1,500 to 2,000 square feet, cost \$800,000 to open, and generate \$3 million in sales per unit.

To strengthen their bonds with their guests, upscale chains like The Palm and **Il Fornaio** use online reservation systems to capture information about their customers. When customers make reservations—either online or over the phone—the company collects e-mail addresses, mailing addresses and birthdays, as well as whether they are first-time guests. In the restaurant, servers keep track of customers' preferences such as what drinks and meals they ordered and where they like to sit. Then they input the information into the system. The server can then anticipate the customers' needs on subsequent visits.

Il Fornaio CEO Mike Hislop says such information is critical to building brand loyalty. Because the Corte Madera, Calif.-based company only opens one or two units a year, driving frequency and top-line sales is key for the Italian dinner-house chain, which has an average unit volume of \$6 million and has seen comp-store-sales increases for 22 consecutive quarters. "The key has been to always be focused on the guest, to always be focused on building the relationships and really be able to take the guest from a first-time guest to a loyal guest," Hislop says.

Abuelo's has also invested in technology. Since the upscale-casual Mexican chain decided to slow expansion because of the tight credit market, it has spent the past year developing an IT infrastructure. The company will roll out an integrated business-management software system to its 39 units by the fall. The system links data from the central office, POS systems and suppliers. A single source of data that houses information about each store's sales and ordering history, the program can help unit managers accurately project their sales mix, determine how much food they need to order, schedule labor and reduce paperwork. Abuelo's expects to reduce food costs by 2 points and labor by 1 percent with this new system.

"Putting something like this together doesn't make sense for a seven-unit chain or an eight-unit chain, maybe a 10- or 13-unit chain, because the savings that you're going to get aren't worth the initial cost of setting up the program and maybe even the cost of running the program itself. You have to buy it and license it and maintain it," says Bob Lin, president of Lubbock, Texas-based Food Concepts International, parent of Abuelo's.

Small Packages



Charlie Brown's Acquisition Corp., a steakhouse chain owned by New York-based private-equity firm Trimaran Capital Partners, purchased Bugaboo Creek Steak House last year for \$24 million from Rare Hospitality. Bugaboo halted expansion this year to ease the transition and focus on the guest experience.

As Abuelo's slows expansion to focus on developing its infrastructure, other chains are moving ahead with opening units, in some cases smaller, more efficient sibling concepts.

In February, Grill Concepts debuted In Short Order, a fast-casual concept that features sandwiches, soups and salads from Daily Grill, in the lobby of the Sheraton Hotel in Seattle. The 450-square-foot test unit is generating more than \$1,000 per square foot.

The company expects future units to be 700 to 800 square feet without a kitchen if a Daily Grill is nearby. It will cost \$500,000 to open. If the unit requires a kitchen, it would be about 1,200 square feet, but the company is not sure how much it would cost to open. It plans to expand In Short Orders in nontraditional locations such as hotels, office buildings and hospitals.

Irvine, Calif.-based **Yard House** opened a smaller footprint of its high-volume, big-box concept in Chino Hills, Calif., in June. **The Yard House Bar & Grill**, which is 6,800 square feet and cost \$4.5 million to open, features about 50 draft beers and 60 dishes—about half the menu of a typical Yard House. The Bar & Grill is also about half the size of a Yard House, which averages 10,000 to 12,000 square feet, costs \$4.5 million to \$5.5 million to open and has an average unit volume of \$8.5 million.

Unlike Yard House, which is a destination restaurant in mixed-use projects, the Bar & Grill concept was designed as a neighborhood bar. So the company prefers to open them in freestanding pad sites in B markets. According to **CEO Steele Platt**, the Bar & Grill in Chino Hills is on track to generate between \$6.3 million and \$6.8 million.

"Unfortunately with today's cost of real estate, with today's cost of construction, there needs to be more attention given to the ways to reduce the size of the box," Weichmann says. "Smart growth may indeed mean you have to have a different format size that's smaller because the abundance of locations at Main and Main isn't there."

Creative tactics like these are the hallmarks of regional chains positioning themselves for disciplined national expansion, says Weichmann: "[They're] striving to achieve and trying to break down the factors that cause you to lose in this industry."



Last year Abuelo's created a new menu with more food photography to prompt guests to order items that have better profit margins. "That's certainly part of the game," says President Bob Lin.

Top 50 Chains Under 50 Units			
Chain, Headquarters	2007 Sales (\$ millions)	Units	Segment
Maggiano's Little Italy, Dallas	\$375.0*	41	Italian
Rainforest Cafe, Houston	300.0*	36	Casual
Claim Jumper, Irvine, Calif.	294.0	44	Casual
Dave & Buster's, Dallas	275.0*	49	Casual
The Capital Grille, Orlando, Fla.	219.6*	29	Steak

Houston's, Phoenix	215.0*	33	Casual
Champps Restaurant & Bar, Littleton, Colo.	215.0*	49	Casual
Legal Sea Foods, Boston	213.0*	33	Seafood
Elephant Bar Restaurant, La Mirada, Calif.	182.0	44	Casual
Saltgrass Steak House, Houston	171.0*	43	Steak
Pappadeaux Seafood Kitchen, Houston	168.0*	32	Seafood
Bubba Gump Shrimp Co., San Clemente, Calif.	160.0*	31	Seafood
Nobu, Las Vegas	155.0*	17	Asian
Ale House Restaurant, Jupiter, Fla.	154.0*	40	Casual
Palm Restaurant, Washington, D.C.	153.0*	29	Steak
Bravo! Cucina Italiana, Columbus, Ohio	143.5	38	Italian
J. Alexander's, Nashville, Tenn.	141.3	30	Casual
Don Pablo's, Madison, Ga.	140.0*	41	Mexican
Yard House, Irvine, Calif.	138.2	18	Casual
Bahama Breeze, Orlando, Fla. †	137.9	23	Casual
Gordon Biersch Brewery Restaurant, Chattanooga, Tenn.	137.9	35	Casual
Roy's, Newport Beach, Calif.	136.0*	34	Seafood
Cheeseburger in Paradise, Tampa, Fla.	136.0*	39	Casual
Rock Bottom Restaurant & Brewery, Louisville, Colo.	135.0*	38	Casual
Fogo de Chao, Dallas	128.0	15	Steak
Smith & Wollensky, New York	125.0*	10	Steak
Brio Tuscan Grille, Columbus, Ohio	121.5	24	Italian
Abuelo's, Lubbock, Texas	118.4	39	Mexican
Il Fornaio, Corte Madera, Calif.	115.0*	20	Italian
Portillo's Hot Dogs, Oak Brook, Ill.	110.0*	34	Sandwiches
Chart House, Houston	108.0*	26	Seafood
Ruby's Diner, Newport Beach, Calif.	108.0*	45	Family
Bar Louie, Glenview, Ill.	107.0	43	Casual
K&W Cafeteria, Winston-Salem, N.C.	106.0*	33	Buffet
The Old Spaghetti Factory, Portland, Ore.	105.0	41	Italian
Planet Hollywood, Orlando, Fla.	105.0*	18	Casual
Bugaboo Creek Steak House, Atlanta	102.0*	30	Steak
Giordano's Pizza, Chicago	101.0*	46	Pizza
Tumbleweed, Louisville, Ky.	99.0*	49	Casual
Today, City of Industry, Calif.**	95.0*	23	Buffet
Landry's Seafood House, Houston	94.0*	24	Seafood
Fatz Cafe, Taylors, S.C.	88.3	40	Casual
Del Frisco's Double Eagle Steak House, Wichita, Kan.	88.0*	7	Steak
Sullivan's Steakhouse, Wichita, Kan.	86.0*	17	Steak
Shula's Steak House, Miami Lakes, Fla.	86.0*	24	Steak
Sirloin Stockade, Hutchinson, Kan.	85.0*	47	Buffet
Acapulco Mexican Restaurant Y Cantina, Cypress, Calif.	80.6	32	Mexican
Carlos O'Kelly's, Wichita, Kan.	78.5*	49	Mexican
Green Mill Restaurant and Bar, Arden Hills, Minn.	76.5	30	Casual
Daily Grill, Woodland Hills, Calif.	76.3	23	Casual
Source: <i>Restaurants & Institutions</i> Top 400; *R&I estimate; **domestic units only; †fiscal year ended May 27, 2007			

Methodology

Chain Leader's Top 50 Chains Under 50 Units ranks food-and-beverage sales for U.S.-based restaurant chains that have 50 units or less. Culled from *Restaurants & Institutions* Top 400, the rankings sort the brands by number of units and systemwide sales for 2007. Chains with the same sales figures are listed by company-supplied numbers, then estimates, and finally by average unit volume.

For trends that are driving limited-service concepts that are tops in the ranking, check out [Growing Limited-Service Chains Look Long Term.](#)

Top 10 Limited-Service Chains Under 50 Units			
Chain, Headquarters	2007 Sales (\$ millions)	Units	Segment
Portillo's Hot Dogs, Oak Brook, Ill.	\$110.0*	34	Sandwiches
K&W Cafeteria, Winston-Salem, N.C.	106.0*	33	Buffet
Today, City of Industry, Calif.**	95.0*	23	Buffet
Sirloin Stockade, Hutchinson, Kan.	85.0*	47	Buffet
Burgerville, Vancouver, Wash.	62.0*	39	Burgers
Shakey's, Alhambra, Calif.	60.0	50	Pizza
Fresh Choice, Newark, Calif.	56.0*	33	Buffet
Wahoo's Fish Tacos, Santa Ana, Calif.	56.0*	47	Mexican
Baker's Drive-Thru, San Bernardino, Calif.	48.0*	36	Burgers
Crispers, Lakeland, Fla.	42.0*	41	Salads
Source: <i>Restaurants & Institutions</i> Top 400; *R&I estimate; **domestic units only			

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