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PERIODICALS

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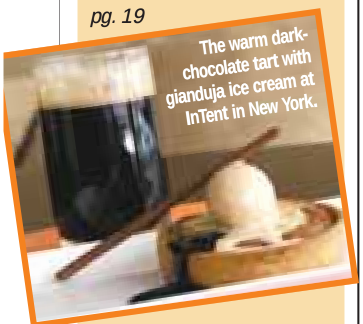
CULINARY CURRENTS:
Operators sweeten sales with chocolate
pg. 19


The warm dark-chocolate tart with gianduja ice cream at InTent in New York.

N.Y. officials deny Wendy's bid to use labeling loophole

White Castle may avoid calorie-posting mandate

BY PAUL FRUMKIN

NEW YORK — New York health department officials said actions taken by Wendy's International would not exempt the chain from a new law requiring that its restaurants here post calorie content information directly on menus and menu boards. But similar efforts by White Castle just might work because of their broader scope, they added.

Wendy's removed calorie information from nutrition posters at its outlets throughout the city's five boroughs and posted a message on its website stating that calorie information was no longer available "to residents or customers in New York City" in an attempt to escape the city's looming menu-labeling rules. However, White Castle went a step further, eliminating all nutrition information available to consumers by pulling it from all 403 units nationwide and from its website entirely.

*(See **WENDY'S**, page 38)*

REUTERS/YURIKO NAKAO

Starbucks Corp. chairman and co-founder Howard Schultz wrote in a Feb. 14 memo to company leaders that he was concerned the chain's expansion to more than 13,000 locations had led to a 'commoditization' of the coffee brand.

Starbucks founder's leaked memo reflects fears about brand dilution

Rivals gain ground as Schultz sees 'sterile' stores lacking coffee aroma

BY DINA BERTA

SEATTLE — Starbucks Corp. chairman and co-founder Howard Schultz's controversial internal memo, questioning whether the chain has watered down its brand for the sake of growth, reflects the concerns of many foodservice companies intent on expansion.

Though few rivals may achieve the kind of popularity that has made the coffeehouse giant a $6 billion-a-year enterprise, rivals nonetheless wonder how to grow a concept without altering its identity and original characteristics or giving up ground to imitators.

In a Feb. 14 memo to Starbucks senior executives that was leaked to a blog, Schultz wondered if some of the decisions of the past 10 years that helped the chain advance from fewer than 1,000 to more than 13,000 locations worldwide had led to a "commoditization of our brand."

He lamented more "sterile, cookie-cutter" store environments, their loss of coffee aroma since the adoption of flavor-lock bags, and the diminished service theatrics that came with a switch to robotic espresso machines.

Schultz also acknowledged that the chain is facing stiffer competition from doughnut shops and numerous other fast-food chains that have upgraded their coffee offerings.

Just last month, for example, Consumer Reports magazine

*(See **STARBUCKS**, page 6)*

Seafood vets spawn new fast-casual concepts

BY RON RUGGLESS

DALLAS — The seafood segment, long dominated by casual-dining and fine-dining formats and recently appearing to trend upmarket along with the soaring cost of fish, is seeing innovation from fast-casual concepts that are able to tame both commodity inflation and the category's trickier operational standards.

Consider three examples: A Dallas-area fine-dining seafood restaurant operator recently expanded into the fast-casual arena with the debut of Fish Express. California Fish Grill, which opened in 1998 in Gardena, Calif., has added Southern California branches in Anaheim Hills, Cypress and Irvine. And the 600-unit Captain D's division of Nashville, Tenn.-based Sagittarius Brands added "Seafood Kitchen" to its signage last year and repositioned itself more as fast-casual than fast food.

*(See **SEAFOOD**, page 41)*

RON RUGGLESS

Mike Hoque opened Fish Express, a fast-casual seafood concept, in Dallas early this year.

ALSO THIS WEEK:

CONSUMER TRENDS:
Operators wake up to popularity of breakfast foods throughout day *pg. 12*

HUMAN RESOURCES:
Importance of manager orientation challenges companies' creativity *pg. 14*

SPECIAL REPORT:
Change to a new law may lower barriers to franchising in China *pg. 25*

NEWS

Starbucks' memo warns against diluting brand experience

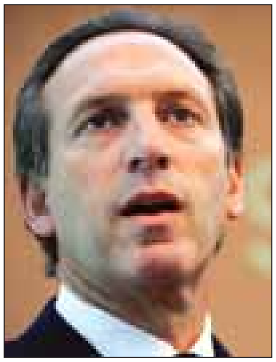
(Continued from page 1)
reported its test finding that McDonald's new coffee was tastier and cheaper than Starbucks' standard brew. Perhaps equally worrisome to Starbucks are reports this month that McDonald's outlets have begun installing big, black machines to produce espresso-based caffe lattes and flavored cappuccinos.

Also, a forthcoming trend report by an industry consulting firm is to conclude that coffee consumers have toppled Starbucks from its No. 1 spot in favor of Dunkin' Donuts. "Companies like Dunkin' Donuts are ratcheting up their branding efforts, and that's resonating pretty well with folks," said Robert Passikoff, founder and president of New York-based brand loyalty consulting firm Brand Keys.

In Brand Keys' soon-to-be-published 2007 Consumer Loyalty Engagement Survey of more than 20,000 consumers, Starbucks won't retain the No. 1 spot it had held for five years. That distinction instead will go to Dunkin' Donuts, the Canton, Mass.-based chain that has more than 7,200 stores. The doughnut chain also recently signed a deal with Procter & Gamble to distribute its coffee to supermarkets.

Schultz acknowledged the growing threat of competition.

"While the current state of affairs for the most part is self-induced, that has led to competitors of all kinds, small and large


CHINAFOTOPRESS/US/SIPA

Howard Schultz wrote in a memo to company executives that many chains have gained position to better compete with Starbucks.

coffee companies, fast-food operators, and mom and pops, to position themselves in a way that creates awareness, trial and loyalty of people who previously have been Starbucks customers. This must be eradicated."

The memo was leaked to the website www.starbucksgossip.com, and Starbucks later issued a confirmation. That statement also contained the company's pledge to maintain "the authenticity of the Starbucks experience."

Some analysts and industry veterans lauded Schultz for raising the issue of preserving Starbucks' culture before any image erosion becomes irreversible.

"It's not that they are losing ground," said Al Ries, chairman of Atlanta-based Ries & Ries, a marketing strategy firm. "Their per-unit sales probably will continue to increase. That's why [the memo] was courageous — usually you do not see these kinds of memos until a company is in trouble."

Staying focused on the core details that distinguish one operation from another is critical for restaurants as they try to build stores and sales, according to veteran operators, analysts and industry observers. Schultz's memo to Starbucks' senior leadership served as an example of some of the unintended consequences of expansion.

"One of the things that happen to a lot of restaurants is a loss of focus," said Chris Arnold, a spokesman for Chipotle Mexican Grill, the Denver-based chain that has grown rapidly to more than 600 locations. "When you lose that focus, that is when you are at the greatest risk of losing that 'cool' or mystique."

As companies grow, they need to have a clearly defined mission and know what it is that makes them unique, says consultant and author John Moore, a former Starbucks marketing executive.

"All businesses that would like to get bigger need to write down four to five things they will never compromise — absolutely never compromise," Moore said. "As a company gets bigger, if it compromises any of those four or five things, that's when they start to lose who they are."

A recent study on how the physical environment of restaurants affects customer satisfaction gives credence to Schultz's concerns about how the public might begin to respond to a "commoditized" Starbucks that he said had sacrificed a warm, neighborhood feel for streamlined store designs.

"For Starbucks, it's not just selling the coffee, but selling the experience," said Eileen Wall, associate professor in the Bill Greehey School of Business at St. Mary's University of Texas in San Antonio. "If the environment is not what the customer is expecting, they are setting themselves up for a downfall. You have to be sensitive to the right things."

Wall, along with Leonard Berry, a marketing professor at Mays Business School at Texas A&M University in College Station, Texas, studied consumer responses to restaurants' physical environment, food quality and service for a recent article in the Cornell Hotel and Restaurant Administration Quarterly.

The professors videotaped both good and bad service scenarios in two different units of an unnamed seafood restaurant chain. One store was newly remodeled and the other was an older-looking branch.

Participants who watched the videos gave higher ratings to the restaurant with the better service, regardless of its physical appearance, but the one with the better design and ambiance and better service was rated highest overall.

"Customers are like detectives, looking for clues on how good the service and food will be," Wall said. "The first thing they see is how it looks. The environment impacts expectations, once you get in there, that's where the people clues take over."

Getting the people and environment clues right is as important as getting the food right, she said.

"These are your differentiators," Wall said. "These are what has traditionally made [Starbucks] special, but everyone has jumped in the ball game and taken away from that. Schultz is saying, 'We've got to use our environment to differentiate us again.' " ■

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FOR THE RECORD

"Asian noodles keep it cool," March 5, page 27, misattributed the quote, "For Americans, they don't have much knowledge about enjoying the noodles, so they enjoy the taste of the toppings and side dishes." That was said by Ken Kusakabe, vice president of the New York restaurant company T.I.C. Group, not by Paul Muller of Taneko Japanese Tavern.

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"Chef's star shines bright at studio commissary," Feb. 26, page 28, misstated the name of Universal/NBC's previous on-site feeder. It was Eurest Dining Services.

(Continued from page 3)

Report: Starwood Capital pays $150M for B.R. Guest

NEW YORK — In deals valued at $150 million, private-equity firm Starwood Capital Group has purchased 16 high-end restaurants from Stephen Hanson and is reincorporating his management company here, B.R. Guest, as a new entity called B.R. Guest LLC, the New York Post reported.

The deal would include such high-profile operations as Blue Water Grill, Atlantic Grill, Dos Caminos and Ruby Foo's. The restaurants, in which Hanson held a 72-percent stake, were owned separately from New York-based B.R. Guest. The deal reportedly would allow Hanson to buy out his minority partners in the restaurants and continue to run them on a daily basis.

Hanson would get a 50-percent stake in the new venture, the Post indicated. It said he also would develop new restaurants for Starwood's high-end hotel properties, including the "1" hotels.

Mallet exits La Madeleine to be Caribou prexy, COO

MINNEAPOLIS — Caribou Coffee Co. Inc., the coffeehouse segment's No. 2 operator, has hired operations and human resources veteran Roz Mallet as its new president and chief operating officer.

Mallet moves to Caribou from La Madeleine French Bakery, Café and Bistro, the Dallas-based fast-casual chain where she was chief operating officer. At Caribou, she assumes the presidency from Michael Coles, who remains the public company's chairman and chief executive.

The COO post is a new one for the 464-unit coffeehouse chain, which includes only 24 Caribou outlets that are licensed to other operators. The Minneapolis-based brand trades in 18 states and the District of Columbia.

Mallet previously was the human resources chief of Carlson Cos., parent of T.G.I. Friday's, and head of human resources at Applebee's.

Wendy's: New VPs to head strategy arm, supply chain

DUBLIN, OHIO — Wendy's International Inc. has added two senior vice presidents to its management team, one to lead the newly formed Innovation and Strategy Group and the other to manage the brand's supply chain.

Paul Kershisnik was named senior VP of marketing strategy and innovation, reporting to Ian Rowden, Wendy's executive vice president and chief marketing officer. Kershisnik, a Pizza Hut veteran, most recently was research and development vice president at Mrs. Fields Famous Brands LLC.

Wendy's named Tad Wampfler senior vice president of supply chain management, reporting directly to Wendy's chief executive Kerrii Anderson. Wampfler formerly was chief executive and president of Supply Chain Management Services Inc., a franchisee-owned co-op that manages the Church's, Popeyes and Cinnabon supply chains. He also formerly was head of supply chain for Dunkin' Brands Inc.

Champps: $75M deal to go private in buyout called off

LITTLETON, COLO. — Champps Entertainment Inc., operator or franchisor of 61 namesake dinnerhouses, said its letter of intent to be acquired for $75 million by its management and an affiliate of private-equity firm Kinderhook Industries LLC had expired.

The company did not say why the deal fell through, but it was contingent on typical due diligence, the obtaining of debt financing by New York-based Kinderhook and shareholder approval. The buyout was to have been led by Champps chairman and chief executive Michael O'Donnell and chief financial officer David Womack.

Champps said a special committee of directors continues to pursue a sale of the chain.

Rare to sell Bugaboo to El Pollo Loco owner Trimaran

ATLANTA — Rare Hospitality International Inc. has agreed to sell its 31-unit Bugaboo Creek Steakhouse chain for $28 million to a holding of Trimaran Capital Partners, the private-equity owner of the El Pollo Loco fast-casual and Charlie Brown's steakhouse chains.

The deal is expected to close in the third quarter, according to Rare, whose other restaurant holdings include the 275-unit Longhorn Steakhouse and 26-unit Capital Grille chains.

Atlanta-based Rare had said in September that it was looking to divest Bugaboo Creek, its most down-market brand.

(See more digests on page 40)