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OUTLOOK

Food With Bravado

Chipotle's Steve Ells is held in awe by restaurateurs, investors and restaurant finance newsletter publishers because of the chain's killer economics and 20x cash flow multiple. Visit any emerging brand operation and the owners will tell you their goal is to create the "next Chipotle." Talk to private equity sponsors and they are searching for another holy grail that is Chipotle.

Ells, however, has found a way to rub some people the wrong way these days, especially since he anointed himself the "Al Gore" of the true food movement.

He may be losing credibility with customers and gaining enemies in the food manufacturing and restaurant industries. His anti-establishment food rants now go beyond the catchy "Food with Integrity" spiel used to snag more customers, and instead have become a form of evangelism more aligned with PETA and the Humane Society of the United States (HSUS), rather than the restaurant industry.

Today, Ells can't finish a sentence without sermonizing about Chipotle's role in saving Americans from unsustainable farming, animal cruelty and genetically modified mush. And, he regularly demonizes a bogeyman restaurant industry that brazenly serves a generic "soylent green" to its customers.

And, to get his point across about food, Ells regularly throws his former benefactor, McDonald's, under the bus as the big, bad pusher-man of junk food. On this point alone, can anyone else join me and call out Ells as, at least, an "ingrate?"

Just as Gore wore out his welcome on the American stage over too much climate moralizing, so too is Ells is in danger of destroying the goodwill of the Chipotle brand with his elitist food hectoring and blasts at the competition.

This month, a negative public relations campaign from the nonprofit Center For Consumer Freedom took a highly publicized shot at Ells and Chipotle over the caloric content of their burritos. More on that later.

Also, there was a foodborne illness case in August at various Chipotle restaurants in Minnesota that came to light in September. It shows in a very real way that Chipotle's supply chain isn't super human after all. And, definitely not immune from the day-to-day problems the rest of the industry faces.

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Emerging Brands and Entrepreneurship Restaurant Finance & Development Conference November 9-11, 2015, Wynn/Encore Las Vegas

What is it about the **emerging fast casual brands** that has investors so excited? Obviously, the financial rewards that come by discovering the next home run will be huge. It's more than just financial, though. The energy that these entrepreneurs bring to the table is inspiring, even for the gruffest of financial apparatchiks. You will get a rare chance to hear from many CEOs and founders of the top emerging brands at this year's **Restaurant Finance & Development Conference.**

Our general session will feature two of the most successful restaurant entrepreneurs in history—**Don Newcomb** and **Antonio Swad**. Don is the founder of **McAlister's Deli** and **Newk's Eatery**, two successful fast casual businesses he developed and sold to private equity investors. Don is currently developing a new biscuits and barbecue concept. Antonio is the founder of the fast casual chain **Wingstop**, which recently went public, and **Pizza Patron**, a pizza concept that focuses on the Hispanic market.

This year's event also features a number of exclusive workshops with emerging brand pioneers. One such workshop looking into the economics of these so-call "Triple Bottom-Line Brands" will feature **Chris Dahlander**, Snappy Salads; **Kelly Parthen**, Bean Sprouts; **Robert McColgan**, Modmarket; and **Mario Del Pero**, Mendocino Farms.

Other conference panels will include **Scott Svenson**, CEO of fast growing MOD Pizza, **Erik Oberholzter**, co-founder of Tender Greens and **Nick Sarillo**, founder of Nick's Pizza & Pub.

And, if you are interested in the financial outlook for these emerging businesses, **Chris Sciortino** of Robert W. Baird will take a look at emerging brand valuations. And, **Damon Chandik** of Piper Jaffray will examine the initial public offering market and its receptiveness to these brands.

The conference kicks off on Monday, November 9th with economists **Arthur Laffer** and **Robert Reich** in an economic debate. Everest survivor **Beck Weathers** (you need to read Into Thin Air by Jon Krakauer) is our luncheon speaker.

The **Restaurant Finance & Development Conference** will be held **November 9-11, 2015 at The Wynn/Encore in Las Vegas. Register today. Last year's event sold out.**

FINANCE SOURCES

Regions Bank Leads Financing Transactions

Regions Bank, a senior lender to the multi-unit restaurant industry, recently closed the following transactions:

1) Led a $45 million financing for **AUA Private Equity Partners**' acquisition of Tijuana Flats and made a significant equity investment in the company alongside of the founders' rollover equity. **BBVA Compass** also participated in the deal.

2) Provided $23 million in financing to **Argonne Capital Partners** in its acquisition of IHOP locations in six states from private equity firm Prometheus Partners. Argonne has named the holding company of those restaurants Alliance Pancake Partners.

3) Provided $27 million in senior debt financing to **Jim Bodenstadt** and his management team in the acquisition of the Atlanta Pizza Hut market from franchisee Nick Peters. Bodenstadt and team are the owner of various companies that operate franchised restaurants in the Yum Brands and Wendy's systems, including MUY Pizza Southeast, which is the holding company for the Atlanta locations. Boutique investment banking firm **Auspex Capital** represented MUY in the acquisition.

4) Provided a $8 million as an add-on to current $99 million debt facility to **Charter Foods** in their acquisition of eight Taco Bell locations from Ampex in Pennsylvania. **Wells Fargo Restaurant Finance** and BBVA Compass also participated in the transaction.

5) Provided debt capital to private equity firm **Sentinel Capital Partners** in their acquisition of **Fazoli's Group** from private equity player Sun Capital. **Cadence Bank** also participated in the deal.

For more information on Regions Bank, contact Robert Daniel, managing director, at (404) 888-5108, or by email at robert.daniel@regions.com.

Cypress Advises Sabo Ventures on Sale of BKs

Investment banking firm The Cypress Group recently advised Sabo Ventures on its sale of 10 Burger King restaurants to Tom Garrett and **GPS Hospitality**.

Garrett was the former CEO of Arby's and president of RTM Restaurant Group. After he left Arby's, he went on to acquire 42 Burger King locations in the Atlanta metro area. In the two-and-a-half years since starting GPS Hospitality, GPS now owns about 206 Burger King locations, and was a Monitor 200 top franchisee in 2015.

The Cypress Group is a boutique investment banking firm whose principals have years of experience buying and selling restaurant for multi-unit businesses, and also offering strategic financial advisory to restaurant operators. For more information, contact Carty Davis, partner, at (303) 680-4141 ext. 102, or by email at cdavis@cypressgroup.biz.

Solomon to Help Expand Direct Capital Franchise Lending

"If I'm in Portsmouth too often, there's something wrong," said **Douglas Solomon**, about his office at the **Direct Capital** headquarters in Portsmouth, New Hampshire.

Recently brought on as Strategic Relationships Representative for the lending company, it's his job to closely work with their franchisor partners, understand their financing needs and continuing to offer solutions. For him, that means being on the road, nationwide, visiting those franchisors at their home base.

It's adding to their team approach, said **Eric Renaud**, senior vice president of portfolio risk management at Direct Capital. He along with **Robyn Gault**, vice president of strategic accounts, and their other team members, have been working with the franchise sector for years. "Douglas is helping us expand in the space," he said.

Steve Lankler, senior vice president of direct sales, marketing and technology, agreed: "It is a continuation of our commitment to the space, with a really experienced development person moving the dial."

According to Renaud, Direct Capital plays in the under $500,000 space, but recently they were acquired by CIT which offers financing to middle market restaurant companies. And, CIT's recent acquisition of OneWest Bank will put more arrows in their quiver.

"We expect that we'll have continued expansion, more products to meet their (restaurant operators) needs," said Lankler. "There will be more for us to bring to the table, and that's exciting."

For Solomon, his goal is to bring Direct Capital's lending platform and the accompanying technology to franchisors and their franchisees, and help them grow. As he puts it, "Taking the platform and complementing it by building relationships." You can contact Douglas Solomon at (603) 433-9413, or by email at dsolomon@directcapital.com.

Auspex Represents Franchisees in Acquisition and Funding Transactions

Investment banking firm Auspex Capital represented Montvale, New Jersey-based **River Flats, LLC** in the acquisition of four Wendy's restaurants in New York and Pennsylvania. The shareholders of River Flats now own and operate 23 Wendy's restaurants. The assignment also involved securing acquisition financing with **City National Bank**, including a $4.8 million senior secured term loan and a $1.0 million revolving line of credit to fund remodels.

Auspex also represented Taco Bell franchisee **Border Foods Inc.**, which recently received a $15 million development line of credit and a $5.0 million revolving line of credit. The facilities will allow the company to continue its expansion and remodels of its Taco Bell stores in the Minnesota, Wyoming and South Dakota markets. The transaction was financed by a bank group led by **RBS Citizens Bank**. **BMO Harris Bank** and **City National Bank** also participated. Auspex Capital acted as the structuring and debt placement advisor for this transaction.

For more information on Auspex Capital, call **Chris Kelleher** at 562-424-2455 or email him at ckelleher@auspexcapital.com.

Cardwell Brought On to Advise Falcon Clients

Restaurant industry veteran Lane Cardwell has joined Dallas-based Falcon Realty Advisors as a director of its Restaurant & Entertainment group, where he will use his restaurant leadership experience to advise the commercial real estate firm's clients on their strategic positioning and concept branding.

Cardwell has served as president of P.F. Chang's, president and CEO of Boston Market, and president and CEO of Eatzi's Market and Bakery, a joint venture with Brinker International and Phil Romano. During his time at Brinker, he also served as chief administrative officer and as a member of the board. His responsibilities included all aspects of corporate development, marketing, purchasing, acquisitions and new concept development.

He'll bring his strategic knowledge to smaller chains that might not yet have their market positioning in place, or don't have access to strategic branding or positioning.

"I can help fill in the gaps as a chain gets growing," said Cardwell. "It is a great way to add value to chains that are really great concepts, but don't see the whole national picture and who they are actually competing against. Founders get the chain 90 percent there, but often don't revisit the last few tweaks needed that drive repeat visits."

A smaller concept may be "90 percent there," but that last 10 percent of tweaking it to make it right sometimes isn't revisited by the founders. Cardwell likened his involvement to the relationship between an editor and writer, which made sense to this reporter: "If you're a writer and you're good at what you do, an editor can take what you've written and make it even better."

The low barrier to entry in the restaurant business has resulted in a lot failed concepts, he said. Two things that can "kill you quickly" are a bad financial structure and a bad real estate strategy. "Those two things have killed more good concepts."

Cardwell founded his own firm, Cardwell Hospitality Advisory, three years ago, and will still provide advisory services as part of that company as well.

For more information, you can contact him at (214) 280-4589, or at lcardwell@falconcompanies.com. For more information on Falcon Realty Advisors, contact Michael Walters, president, restaurants and entertainment group, at 972-841-8800, or by email at mwalters@falconcompanies.com.

PE/Venture Capital Executive Hal Wilson Dies

Hal Wilson, managing partner of **Northwood Ventures**, a venture capital and private equity firm based in New York, died on August 26 while vacationing with his family in Newport, Rhode Island. He was 56.

Wilson worked for the last 24 years at Northwood, leading investments in the restaurant industry for the firm, including Celebration Restaurant Group, where he also sat on the board of directors. Celebration operates 175 Yum Brands restaurants in Florida, Ohio, Georgia and South Carolina. Wilson led Northwood's early stage investments in names like Buca di Beppo, Cosi and Caribou Coffee, as well.

Peter Schiff, co-managing partner at Northwood, said in addition to being "extremely smart and bright, and patient and diligent on the details," that Wilson stood out as someone where "it was never about him."

"He worked with all levels of management at companies... and he put others first," he said. "It was about doing the right thing; it was always about helping."

Prior to Northwood, Wilson worked in the investment banking division of Merrill Lynch, and the commercial lending division of the Irving Trust Company. He was a member of the Board of Directors of St. Bernard's School in New York City.

Memorials in his memory can be made to any of the following schools: St. Bernard's School in New York City, St. Christopher's School in Richmond, Virginia, and The Nightingale-Bamford School in New York City. For more information or online condolences, visit: www.oneillhayes.com

ApplePie Hires Zinn to Manage Institutional Relationships

ApplePie Capital, a marketplace lender dedicated to the franchise industry, recently appointed **Jeff Zinn** as Head of Capital Markets. Zinn comes to ApplePie Capital from Jefferies & Company, a global investment bank and institutional securities firm, where he served as Managing Director, specializing in structured product sales since 2011.

With 20 years of experience in the securities industry, Zinn will be responsible for accelerating ApplePie Capital's growth and expanding the company's relationships with institutional investors, ensuring that ApplePie can continue to provide financing to franchise businesses across the nation.

Headquartered in San Francisco, ApplePie Capital is a marketplace lender that provides loans of $100,000 to $1.0 million to franchisees of approved concepts. Currently, ApplePie has 20 franchised concepts approved for funding. For more information, contact **Jeff Johnson**, managing director, at (415) 069-1493, or by email at jeff@applepiecapital.com.

FINANCE INSIDER

Darden's plan to spin off its corporate real estate into a real estate investment trust called Four Corners Property Trust is not a new finance technique in the restaurant business. In 1984, the buffet chain **Golden Corral** created a real estate investment trust (REIT) to hold some its properties. It was called **Golden Corral Realty Corp**. In 1992, Golden Corral turned over management of the REIT to **CNL** and the name of the REIT was changed to **Commercial Net Lease Realty** and was listed under the symbol "NNN." Today the REIT is known as **National Retail Properties**.

No one is busier in the restaurant business than **Doug Benham**. The former **RTM** chief financial officer and **Arby's** president was recently named executive chair of the family dining chain and sausage maker **Bob Evans**. That's in addition to his role as chairman of **Quizno's** and an advisor to **Argonne Capital**, a franchisee of **Applebee's** and **IHOP**.

Restaurant analyst **Bob Derrington** has moved to **Telsey Advisory Group** as managing director. He was previously the restaurant analyst at Wunderlich Securities. Derrington will initiate coverage on restaurant companies in the next few weeks. "Telsey is strong in the consumer space, and they want to expand the restaurant focus," he said. "It's a great fit for both of us." You can reach him at bderrington@telseygroup.com, or at 212-584-4611.

Chris LaRocca's Crushed Red Urban Bake & Chop Shop opened its first franchise location in the Orchard Town Center in Westminster, Colo. The second restaurant in Denver will open in December. LaRocca also signed a franchise agreement for O'Fallon and Columbia, Mo.; and Overland Park, Kan. LaRocca currently operates three restaurants in St. Louis.

Fastest growing fast casual pizza chains? **Blaze Pizza** will end the year with approximately 110 open restaurants, and is projected to open 90-110 in 2016. **MOD Pizza** has opened 36 stores this year on a beginning base of 31 restaurants. The chain expects to have 95 to 100 stores open by the end of the year and plans to double its store count by the end of next year. Not to be outdone, **Pie Five Pizza** has 64 units open, and plan to have 90-100 by the end of the year.

Brinker International has repurchased $880 million of its outstanding shares (19.7 million shares at an average price per share of $44.63) and paid out $190 million in dividends over the past three years. It has added $355 million in long-term debt in the process. Over the same period, the company issued close to six million shares to officers to cover option and performance share grants. Last month, the company issued CEO Wyman Roberts options to acquire 104,736 shares at $54.15.

Biglari Holding's (Steak n' Shake) CEO Sardar Biglari was skewered in a recent New York Post column over the performance of the company's ownership of **Maxim**, a struggling mens magazine. According to a Post source, "Biglari has been muscling in on cover shoots and seeking to meet the scantily clad models." According to the company's recent 10-Q, Maxim magazine lost approximately $10 million in the first six months of the year. The Post cites falling circulation and newstand sales.

DineEquity CEO **Julia Stewart** is taking over the day-to-day operations responsibility for **Applebee's** as **Steven Layt**, Applebee's president since February 2014, has left the company. According to the company announcement, DineEquity is consolidating the restaurant and franchisee support functions at its Glendale, California location. Layt resigned because he was unwilling to move to California. Franchisees we spoke with didn't care one way or another about the brand's move to California, but hated to see Layt go. One franchisee called Layt's departure "unfortunate" and referred to Layt as an "effective brand leader."

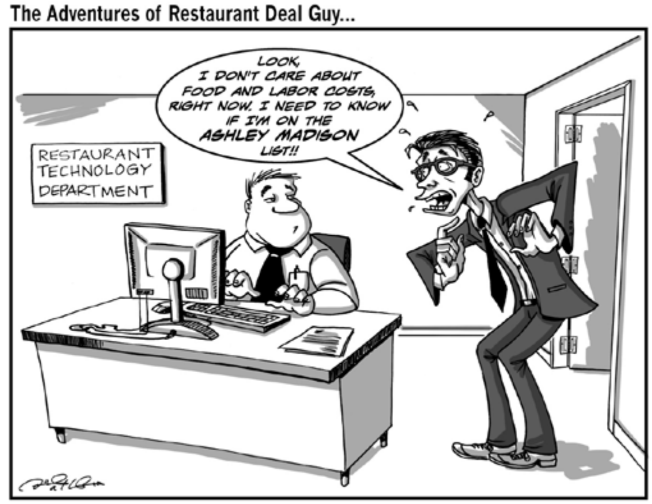
Morehead Capital's Quinton Maynard has been undergoing cancer treatment at University of North Carolina Cancer Center and MD Anderson Cancer Center in Houston. Quinton underwent open heart surgery a year ago to remove a cancerous tumor. This was followed by radiation and chemotherapy. He is currently undergoing immune therapy treatment and making progress. You can keep up with his progress via Caring Bridge. Morehead is the private equity fund that owns **Chop't Creative Salad Company**.

The large multi-unit **Carl's Jr.** and **Hardee's** franchiseee known as **Frontier Star** Enterprises controlled by Jason, Carl and Margaret LeVecke, grandchildren of **CKE** founders Carl and Margaret Karcher, filed bankruptcy in July. In late August the company's attorneys wrote that although the company was "basically sound from a strictly economic standpoint, Debtors were compelled to file a voluntary Chapter 11 petition on July 27, 2015, due to the fact that the costs of operating the Debtors' franchises, as a whole, exceed revenues." Come again?

Denny's may be the next restaurant chain to see franchisee consolidation, according to investment banker **Craig Weichman**. Weichmann cites a combination of strong operating results at the family dining chain combined with long-time operators in the system looking to retire. Plus, recent actions by other franchisors to allow larger franchisee groups will play into it.

Sandwich chain **Jersey Mike's Subs** is looking to double its store count in the next four years. This year the company should open up to 180 or 190 stores and should break 1,000 stores in early October.

The Adventures of Restaurant Deal Guy...



Finding the Magic Number in the Sub Segment

All restaurant businesses have similar aggravating forces: the economy, hiring and and attracting customers. Those don't change, so when operators are looking for the next unit, things like ROI, profit margins and startup costs make all the difference.

Budding multi-unit hopefuls and seasoned operators looking to diversify have no doubt thought about getting into the sandwich segment. It's no wonder, with brands like Jimmy John's, Jersey Mike's, Firehouse Subs on down, growing at a breakneck pace, adding more than 1,500 units in 2014. Subway was the only major player in the sandwich segment that contracted in 2014. The rest of the segment saw a sales increase of 17.8%, according to Franchise Times research.

But is the sub segment ripe for building out a multi-unit franchise organization? There are a couple different opinions even among franchise veterans on this topic. On one side, there is the view that building an organization on subs is a bad idea because the margins are slim and the work is just as difficult as running a larger restaurant. The other side says the low cost of entrance makes it easier to grow to a highly profitable level.

"When you look across our segment, there are lots of examples of folks building big organizations with sub sandwich concepts," said John Teza, chief development officer at Jersey Mike's.

There are several recent success stories including a private equity purchase of a 23-unit Jimmy John's franchisee and the largest Jersey Mike's franchisee, Alvaro Garcia, is about to open his 31st unit in downtown Los Angeles. A longtime Domino's franchisee, Garcia jumped into the sub concept when Mikes had 400 stores. He said comparing the two franchises he's operated shows major differences.

"It's much easier to run a Jersey Mike's than a Dominos," said Garcia. "When you have delivery, you have more exposure."

Between the cost of insurance and extra labor costs for drivers, the sub concept is more profitable at a base level, according to Garcia. He said food and labor and utilities were all lower. He said operationally, the fact that sandwiches are mostly a lunch item means when "you got four, five people and a line out the door, you can still handle it," said Garcia. "People are watching you on the line, you're talking to the customers, and people don't mind."

The cost of growth is also more attractive for someone looking to grow with a smaller investment or less debt. "That's one of the resounding things we hear," said Teza. "Startup costs are so meaningful that it's hard to justify building out more QSRs when they can build inline restaurants for a lot less."

Garcia started his first Jersey Mike's units with his own cash and funding from his business partners. None of the stakeholders wanted to put up a personal loan guarantee, so a traditional bank loan was out of the question. After a year and a half of business, they were capitalizing new stores company profits. Targeting a new unit every month and a half, Garcia is an example of when a sub organization does work.

A longtime restaurant franchise consultant who wished to remain anonymous, however, said it just doesn't make sense for a lot of people in the industry. "My own personal experience is the sub and sandwich sector is not geared toward existing multi-unit restaurateurs," said the source.

He said the startup costs are attractive, but seasoned players are looking for a two-to-one or better return on their investment. And many markets just aren't strong enough.

"If you've got $400,000 in opening costs, you're going to want to have annual sales of $800,000. There's a lot of markets that can't produce $800,000 whereas you can put in $800,000 into a casual dining restaurant or QSR and it can pump out $2 million or better," said the source, noting that with a 15% margin, that's $300,000 in profit. "So now you're way above the two-to-one sales, investment ratio and they'll take that risk all day long."

Garcia said those margins were tough to overcome in the early days of the organization. But after a year and a half of aggressive growth, the scales tipped in his favor. "There was a year that we didn't really see anything. When we opened our eighth store, we saw it start coming in really nice," said Garcia.

So far, there is little consolidation and only a few private equity moves in the sandwich segment. Atlantic Street Capital Management's purchase of a 23-unit Jimmy John's franchise in the Chicago area is one of the few.

"To keep the private equity owners happy, they'd have to do dozens and dozens," said our source. "So there's some real risk."

On the operational side, there is a similar level of aggravation between sub organizations, QSR and casual dining. Sub shops typically have fewer SKUs, making inventory and pipeline logistics a little easier, but labor is tough to manage. Employees making sandwiches and interacting with customers need to be constantly trained.

"Training is the most important factor in Jersey Mike's success. Regular, repeated, constant training," said Teza. "We require 400 hours of training for three people at every restaurant. And we have a training crew that is out in the field all year long."

Garcia said that training was a huge undertaking at the beginning. "As you're growing and opening a store, you've got a lot of training," said Garcia. "There's profit, but it will get eaten by all the training."

Overcoming slimmer margins is a matter of unit numbers, but there is no hard fast rule for how many units. Garcia found his magic number of units at eight. So there certainly are big organizations thriving in the sub segment, but like any business, success depends on the management team and the market. But there is a good reason that big investors still aren't in the space, and it's not just a matter of reaching segment saturation. Unit margins are good, but there are better returns out there.

No matter what, an operator better love subs before looking to build their sub organization, because there are some long hours ahead.

—Nicholas Upton

OUTLOOK

Continued from page 1

A Zealot's Rant or Cagy Marketing Message?

Is Chipotle's messaging more about attracting and retaining customers, or is it designed to marginalize other restaurant businesses? If you listen to Steve Ells on quarterly conference calls and public appearances, you might think the latter.

“Our track record to improve our food is unmatched in our industry,” preached Ells in his 2015Q2 conference call. Ells is apparently unaware that any number of fast casual restaurants make a priority of serving high quality, healthful food. Panera, for instance, has long promoted honesty and transparency in the chain's ingredients.

“Chipotle is the only national chain where consumers can eat anything on the menu without worrying about eating GMOs (genetically modified organisms),” boasted Ells in a recent conference call.

Not true. No GMOs in Chipotle restaurants is a stretch, and seems designed again to attack other QSR restaurants. A California attorney immediately filed a class-action suit against the company alleging that Chipotle’s claims are false and misleading to customers because Chipotle’s menu was never free of GMOs at any time. According to the lawsuit, Chipotle serves meat and dairy products that come from animals that feed on GMOs and serves Coca-Cola and other soft drinks that contain corn syrup, another GMO product.

Chipotle acknowledges on its website that most animal feed is genetically modified, but that it has been working on alternatives to its meat supply such as 100% grass-fed beef it serves in some restaurants, but not all. To this end, Chipotle has sourced beef from Australia and is currently buying pork from a supplier in northern England to serve Chipotle restaurants in Florida.

The search for humanely treated animal meat is also a hot button for the chain. In 2011, Ells told a Nature Conservancy writer he doesn't like how family farms were displaced by "industrialized meat production operations, in which animals endure terrible brutality and suffering." He said his goal is to only work with independent ranchers "committed to humanely raising animals outdoors and without the use of antibiotics."

To make a point, in January, Chipotle stopped serving pork carnitas in about a third of its restaurants after it said its animal welfare auditors found one of its suppliers to be "violating some of Chipotle’s core animal welfare standards."

In a recent conference call with analysts, Ells said that conventional animal practices were unacceptable and that he refused to serve pork from animals raised in that manner. He said that "conventionally raised pigs are typically raised indoors with no outdoor access and are typically given antibiotics non-therapeutically to simulate growth and to prevent illness from spreading due to harsh crowded living conditions."

Ells then took a sanctimonious shot at other restaurants after his pig rant: "Increasingly our vision of changing the way people think about any fast food is resonating with consumers, many of whom want a better, more responsible alternative to traditional fast food."

An example of the relentless attacks on other restaurant chains is the recently created online game by Chipotle called "Friends or Faux."

The game highlights various Chipotle ingredients with those it says are "commonly used to make fast food and processed/packaged foods." For instance, if you compare a steak burrito sold by the chain to a cheeseburger from a generic fast food operation, Chipotle claims the burrito holds 27 of the so-called "friendly" ingredients compared to the cheeseburger's 23 friendly ingredients. Friendly ingredients include such items as white sweet corn and wheat flour. The Chipotle burrito, however, held 11 faux additives, such as potassium sorbate and sorbic acid, which Chipotle claims it is working to reduce, while the cheeseburger held 40 of these nasty additives, presumably on the menu forever.

Chipotle says that thousands of additives are used in processed foods and says there is a lot of talk by other restaurant chains about reducing them, but none of them are doing as much as Chipotle to trim the number. No specific restaurant chains are named. Discussing the online game during a conference call, Ells said that it highlighted "the strength of our food culture and a unique and compelling people culture that further separates Chipotle from other restaurant companies."

Another example of Ells' effort to separate Chipotle from other restaurant chains, specifically McDonald's, is the Chipotle Cultivate festivals the chain holds in various cities. Our reporter Nick Upton attended one such festival in Minneapolis last month. He likened the event to an "indoctrination camp" with "a maze of lines and pop-up stations designed to create brand awareness or communicate Chipotle’s food values."

The pop-ups covered the GMO debate and the differences between factory and free-range farms. A large sign at the entrance proclaimed Chipotle's contempt for McDonald's: "No, Chipotle is not owned by McDonald's.”

Where Would Chipotle Be Without McDonald's?

McDonald's owned Chipotle before spinning it off in an initial public offering in 2006. Many of the senior people at Chipotle, including the CFO, Jack Hartung, are ex-McDonald's employees. Two current Chipotle board members, Jim Flynn and John Charlesworth, were former McDonald's senior executives. In fact, when the company went public, excluding Ells, five of the eight officers and directors were ex-McDonald's.

Ells has been critical of McDonald's and its management style, despite the burger giant's support of him in the early days. "Our own real estate, our own purchasing, our own distribution turned out to be better than what they had," said Ells in a Bloomberg Business Week article.

"Not true," says a former McDonald's executive who told the Monitor that "Ells owes the majority of his success to the systems that were put in place by McDonald's."

"We stuffed the company with talent and gave him access to capital that he would never have had," another former McDonald's executive told me.

Chubby Chipotle

On September 3, a full-page ad in the New York Post questioned Chipotle's healthy food claims. The ad showed a smiling, shirtless and definitely overweight man saying "Eat two "all natural" Chipotle burritos a week and you could gain 40 pounds in a year." The ad was followed by the website www.chubbychipotle.com

A second ad, which appeared a week later and contained the same message, was a picture of an obese woman struggling to get her pants buttoned.

Both ads took Chipotle to task over its high-calorie burritos and tacos. The ad said the chain: "spends most of its marketing dollars stressing how 'sustainable' it is, or how its foods are antibiotic-free, except when it sells meat from animals treated with antibiotics. All these claims may sound good, but experts say they don't make Chipotle's food healthier. Experts do agree that eating too many 1,300-1,500 calorie burritos will probably make you fat."

The ad was produced by Berman & Co., a Washington, D.C., public relations firm headed by former Brinker general counsel, Rick Berman. The non-profit association attributed to the ads, The Center for Consumer Freedom, is managed by Berman, and has ties to the food and restaurant industry. Berman pulls no punches. The ads call Chipotle a "fast food hypocrite" and calls its marketing unscientific and one that harms animal welfare.

Berman's group also creates websites and research to counter the HSUS and PETA, arguing their animal rights efforts are attempts to sensationalize animal cruelty and promote vegan lifestyles. Their ultimate goal, Berman says, is to eliminate meat diets and drive up protein costs. Berman's also been outspoken against the $15 minimum wage campaigns and recent actions by the National Labor Relations Board to declare franchisors joint employers with their franchisees.

Although I've never met Berman personally, I've listened to him speak at various restaurant conferences over the years and talked on the phone with him recently. Most would describe Berman as an imposing figure, one who you would definitely want on your side in a debate, and perhaps in a fight.

Berman is quick to see danger on the horizon, whether it be government regulation, union activity, or any other potential threat to his clients. And, clients give him maximum leeway to protect their interests with plenty of money to execute.

One of his favorite targets is Michael Jacobson, head of the Center for Science in the Public Interest, a frequent critic of restaurants, and famous for his attacks on sodas and movie theater popcorn. Berman says Jacobson uses "junk science" to prove his points, while Jacobson called Berman, a "one-man goon squad." Wayne Pacelle of HSUS has written that Berman is "hired by corporate interests to perpetuate animal cruelty," while Berman says he enjoys getting under Pacelle's skin.

Berman believes that no one in industry, including restaurants, is countering the PR sway of NGOs (non-governmental organizations) and that many businesses suffer a form of "Stockholm Syndrome" by not fighting back.

Describing his work on the "soda causes obesity" controversy, Berman said that in hindsight, "the soft drink industry failed to invest enough to manage activists who were changing public opinion at an early, correctible stage." Now, soda sales are falling.

Berman's taken on drunk-driving laws, minimum wage increases, nutritional standards and union organizers. In an article for Nation's Restaurant News in August, Berman characterized his approach as one of stopping activists early enough before they change public opinion. He told 60 Minutes reporter Morley Safer in 2007 that shooting the messenger is what he does best. "Getting people to understand that this messenger is not as credible as his name would suggest," said Berman. Steve Ells is obviously the "activist" that Berman is targeting this time around.

When asked about the Chubby Chipotle campaign, Berman said "he's there to correct the record where people are twisting the facts and supporting it with junk science." He told me Ells is marginalizing other restaurant businesses with his claims about healthy food, sustainability and animal welfare, which he says aren't true for the majority of Chipotle's supply chain.

Berman's website humanewatch.org suggests that Chipotle may be contributing to HSUS. HSUS's Pacelle wrote an article on September 14 praising Chipotle after the Chubby Chipotle ads were publicized. "And Rick Berman and other opponents of social progress for animals aren't going to stop us or Chipotle or any other entity that is working on the right side of history," wrote Pacelle.

Industry observors speculate that funding for Chubby Chipotle has come from QSR chains and agri-businesses, such as Monsanto, which produces genetically modified seeds and pesticides. Chains such as Darden, Brinker and Outback Steakhouse have been contributors to Berman's nonprofits in the past, and former chain restaurant executives have served on their boards.

Berman told me "No, and no," when I asked him if any restaurant chains or Monsanto were directly involved in the funding of Chubby Chipotle. "We are funded by a broad array of donors but are given free rein to do what we think is correct in these areas." Nevertheless, this is the first time I can remember a campaign against a specific restaurant.

Public opinion may work against restaurant chains that don't aspire to Ells' world view, perhaps at a faster pace than Berman can rally his troops to respond. Note McDonald's recent announcement on "caged eggs." Over the next decade, McDonald's will stop buying eggs from farms that use small cages to confine chickens, despite the potentially increased costs.

Other restaurant chains will likely have similar announcements on ingredients in the future."You don't have to agree with all of what Chipotle is doing but they are staying in the conversation," says marketing expert Neil Culbertson.

In the end, Berman and his supporters may ultimately be engaged in a losing battle. It's simply too hard to stop budding entrepreneurs from reaching for a GMO-free holy grail and a 20x multiple.

—John Hamburger

FINANCING

Why Are More Banks Getting Into Restaurant And Franchise Lending?

Last month we discussed why sophisticated investors like to invest in restaurants. This month, with the help of my partner Randy Evans, we are asking the question, “Why are more commercial banks getting into the restaurant franchise lending business?”

Some notable banks have in the recent past expanded into restaurant franchise lending. A few examples are: (a) BMO Harris Bank; (b) Bank United, through its subsidiary United Capital Business Lending; (c) Fifth Third Bank; (d) Highland Park Bank & Trust; (e) TD Bank; (f) Huntington Bank, and (g) more recently, M&T Bank has been exploring the possibility of getting into the space. In light of these new entrants, we thought it would be helpful to interview a couple of veteran restaurant lenders to gain further insight into why commercial banks are continuing to enter. We spoke to Rick Meiklejohn at BMO and Bill Wildman at United Capital Business Lending.

Historically, banks have been adverse to lending money for restaurants. This obviously has changed, and one of the reasons is the distinction between the restaurant world in general and the franchise restaurant world. Yet the distinction notwithstanding, it is still restaurant lending. After speaking with Bill and Rick, the following appear to be some of the reasons why:

1. Market in General. The market, in general, according to Rick Meiklejohn, has become more sophisticated. The available market data has also become more abundant and sophisticated, allowing the national, regional and local commercial banks to do more effective underwriting. Bill Wildman spoke about the diversification of bank lending after 2008. This started with the process of cleaning up their balance sheets, and then, once things were good, moving forward to look for new opportunities such as franchised restaurants.

2. Relationships. A loan to a franchise restaurant company can provide for a broader relationship (particularly depository, cash management, wealth and investment management) because restaurants have need for cash management, credit services and wealth management for the owners. This broader relationship allows the banks to make significant fee income so their return is not just interest income on the loans.

3. Demand. There always seems to be a demand in the restaurant finance world for senior debt. The reasons are:

A. Franchisees are constantly developing and opening new stores.

B. Franchisees are required to frequently remodel.

C. There are frequent consolidation transactions where a larger franchisee buys out smaller franchisees.

D. Franchisees often buy and sell real estate.

The franchise restaurant industry is a dynamic one, where there is always need for senior debt, unlike in certain manufacturing industries or high tech industries. The consolidation and continued development of the franchise restaurant industry has always been driven by the availability of debt.

4. Rate Structure. Bill Wildman emphasized that while there is pressure on lower rates in today’s market, the prevalent view is the restaurant industry is not as rate-sensitive as other industries. Rick Meiklejohn acknowledged rate compression but pointed out that banks can deal with rate compression because, as stated above, they can provide other services to the borrower which can then provide an overall favorable return.

5. Franchisor Safety Net. Both interviewees stressed the importance of the franchisor relationship, which provides a significant backstop for loan issues. The analysis performed by lenders on the franchisor systems is an extremely important factor here. There are particularly sophisticated tools that evaluate the systems, which then makes the underwriting process a great deal easier because the economic viability of the franchise system is clearly understood.

6. Sale of GE. Both interviewees spoke of the pending sale of GE Capital Franchise Finance and its impact. The market niche GE had, particularly in the middle market space, is now going to be available for other lenders. Wildman and Meiklejohn both though GE's sale would be a plus for their lending groups.

Also, unless GE is sold as a stand alone entity, it has a number of talented employees with strong customer relationships who are going to be looking for new opportunities. These people will be available to those banks that want to expand or start a new lending group.

7. Consumers. With consumers now spending more money on food outside of the home than inside the home, there is certainly consumer demand that allows for development and growth of new concepts. With private equity involved in this industry, an equity cushion is provided. This all plays into the ability of the lenders to feel like they have a good credit position for restaurant lending.

8. Non-Franchise Restaurants. There are some impressive companies who have 10 to 20 multi-concepts within their restaurant portfolio. To name a few: Talk of the Town in Orlando, Parasole Restaurants in Minneapolis, Starr Restaurants in Philadelphia, Cameron Mitchell Restaurants in Columbus, Ohio; Fox Restaurant Concepts in Phoenix, and Lettuce Entertain You in Chicago. These types of companies have and will continue to attract the attention of national investors and lenders. The tough area for lenders is still the small, early-stage restaurant company. For those concepts, the SBA will always be the best option.

It is clear that restaurant lending is still alive and well, and banks still see this as an opportunity. Most commercial banks and national lenders are looking for clear niches that have enough demand and borrowers for relationships to be established.

In the next issue we will complete the discussion of restaurant lending when we discuss the in-between financing stratum (which we call mezzanine financing).

–Dennis Monroe, Chair
Monroe Moxness Berg P.A.

UP CLOSE

A Twitter User's Impact on $COSI

Today, tweets move the stock market. It's why traders pay data-mining firms big bucks to gauge price movements by breaking down tweets in real-time and analyzing their words and word order. In April, for instance, traders were alerted almost an hour ahead of breaking news that 142 passengers and crew were suffering from a gastrointestinal illness onboard a Royal Caribbean cruise ship. They therefore avoided getting burned when RCL shares tumbled 2.9% in the immediate aftermath.

Yet for equities that trade in the $1-$3 range, Twitter can serve another useful purpose: Keeping management on its toes. Consider $COSI, the Twitter handle for Cosi, Inc., a Boston-based public company that owns and franchises 111 bakery-cafe restaurants. For the past 18 months or so, a shareholder named Michael Bigger has provided regular commentary on company operations via Twitter. Bigger is a veteran trader, according to his website, biggercapital.com.

To be sure, other people employ $COSI when tweeting about the company, yet none appears to have the same commitment to detail. On September 3, for example, Bigger tweeted more than a dozen times noting his likes and dislikes after a trip to Boston. To wit:

Michael Bigger @biggercapital
If the food is great, why food photos? Why? We see the Chia shots at the counter, why Chia shots photos? Waste of money.

Michael Bigger @biggercapital
$cosi like what I am seeing but couple more pictures of crazy clutter. New Menu Boards are huge improvement.

By virtue of his 10,000 followers, Bigger isn't a small player. "If he wants to take on a name — whether it's $COSI or anything else — he can influence the discussion. If you influence the discussion, you can influence the share price," says Hedgeye Managing Director Howard Penney (@HedgeyeHWP). Bigger didn't respond to a request for an interview via his website.

That may be true for larger equities, but (so far) it's questionable for COSI. On September 3, when Bigger tweeted about clutter, the stock closed slightly higher, rising from, $1.08 to $1.16 two days later — yet falling the next day to $1.09.

A few weeks earlier, for example, Bigger worried about a new menu product (Pumpkin soup), but nonetheless praised management's enthusiasm, linking his tweet to an earlier tweet from R.J. Dourney, Cosi's chief executive. Shares of COSI were down at closing for the next two days.

Michael Bigger @biggercapital
Not sure about Pumpkin soup but can't denied (sic) the passion. Although I love pumpkin pie.

RJ Dourney @rjdourney
@ShanLo1983 raves about the new #coffee, #pumpkin soup and the $COSI bowls in test in #boston. Coming in the fall. Off the hook. #LetsGo.

Dourney, who has many fewer Twitter followers (375) than Bigger, also tweets regularly, sometimes asking for feedback. His most recent tweet at press time (below) included a photo of the restaurant.

RJ Dourney @rjdourney
When you are in NYC please go by $COSI at 31st and Park and give me feedback.

Feedback? In a recent interview, Dourney said he invited opinions because the restaurant has a new look and menu, which came at considerable cost. Moreover, he claimed his followers are largely experts. "I get people [following me] who are very connected to the restaurant industry telling me what they are thinking." he explained. "Other stuff gets washed into that, too. You take the good with the bad."

Bigger, who according to his Twitter feed is visiting London, took up the Dourney's offer, tweeting:

Michael Bigger @biggercapital retweeted RJ Dourney
Learned Hearthstone model adopted there transactions up to 120 per hr fm 80. $COSI Love Twitter duedil.

Bigger met with Dourney and his direct reports during one of the trader's trips to Boston. "I've got to tell you, man, I've got a lot of respect for investors who really dig in and understand stuff," Dourney said, adding he doesn't know how many shares Bigger owns. "I take very seriously the feedback Michael provides via blogging and Twitter." Dourney, by the way, was a Cosi franchisee operating a dozen or so restaurants via an entity called Hearthstone before signing on as CEO in March 2014. His units, which significantly outperformed corporate stores, have since become corporate restaurants.

Two days before Dourney asked for feedback on the redesigned unit, Bigger appeared somewhat doubtful about the share price, retweeting in response to @instaya, who suggested $COSI was making a comeback and backing it up with a Boston Business Journal article.

Michael Bigger @biggercapital
It will once comps start moving up, so far this a disappointment in the story. Boston metrics not propagating $COSI.

Bigger was apparently referring to a company report that showed systemwide same-store sales had crept up a meager 1% in August. When I mentioned the tweet to Dourney, he said Bigger was expecting a quicker turnaround. "Isn't happening as fast as he hoped it would. But it is a turnaround," Dourney insisted.

Investor impatience aside (something public company CEOs must live with), one might ask if it's fair for an influential shareholder to detail a single restaurant's operational flaws on Twitter? "We can be doing a thousand things right and Michael walks in and sees that a counter is dirty or something else is wrong. Would I rather he picked up the phone and called me? Yeah," Dourney said. "But I'm a big boy. I can deal with it."

—David Farkas

MARKET SURVEILLANCE

Diversified Restaurants Holdings, Inc.

BGGR · NASDAQ

Buffalo Wild Wings franchisee acquires the assets of an 18-unit franchisee

Transaction Date: June 29, 2015
Seller: A Sure Wing, LLC
Price: $54 million in cash subject to adjustment for cash on hand, inventory and certain prorated items.
Store Locations: 15 in Missouri and three in Illinois.

INCOME STATEMENT

Year ended Deecember 28, 2014
(A Sure Wing, LLC.)

Revenues	$39,808,207
Net Income	$3,972,784
EBITDA	$6,765,678

SUMMARY:
After the acquisition, Diversified now owns and operates 62 Buffalo Wild Wing restaurants as a franchisee in Indiana, Illinois, Michigan, Missouri and Florida. The company also owns and operates 23 Bagger Dave's Burger Tavern in Michigan and Indiana.

On August 13, 2015, Diversified acquired the rights to develop ten additional Buffalo Wild Wings restaurants in Michigan and Florida over the next five years.

The company used part of it $120 million term loan with Citizens Bank to make the acquisition. The term loan is for a term of five years and is amortized over 12-years straight-line with monthly principal payments of $833,333 plus accrued interest.

Now that the acquisition is complete, the company expects tp have revenues for the year of approximately $168 to $174 million and should end the year with between 93 and 94 restaurants, consisting of 30 to 31 Bagger Dave's and 63 Buffalo Wild Wings.

Potbelly Corporation

PBPB · NASDAQ

Second Quarter Results From Operations and Share Buyback

Date Announced: August 10, 2015
Share Buyback Announcement: During the first half of 2015, the company repurchased 922,316 shares of common stock for approximately $12.5 million ($13.55 per share) in open market transactions. The company announced it will repurchase an additional $35 million of its common stock.
Recent Share Price: $11.28

INCOME STATEMENT

Twenty six weeks ended June 28, 2015

Revenues	$95,949,000
Net Income	$2,461,000
Net Income Per Share	$.08

BALANCE SHEET

As of June 28, 2015

Cash	$54,105,000
Shareholder's Equity	$151,507,000

SUMMARY:
As of June 28, 2015 the company had 349 company-operated sandwich shops, 17 franchised locations domestically and 12 franchised locations internationally.

Baird analyst David Tarantino wrote in a September 9th report that he considers share buybacks an "effective use of capital particularly with the stock near valuation lows despite signs of better operating fundamentals over the past three quarters."

In addition, the company expects at least 20% annual adjusted net income growth in 2015 and is looking for 40-45 company-operated store openings and low single-digit comparable store sales growth.

Tarantino estimates the $35 million buyback at approximately $11 per share would add $.04 to annualized earnings per share. He calculates Potbelly's valuation to be 7.5x 2015E EBITDA and 6.5x on the 2016 estimate.

Sonic Corp.

SONC · NASDAQ

Sales rise, stock tanks

Date announced: September 15, 2015
Announcement: System-wide same-store sales for its fiscal 2015 were up 7.3%, with company stores up 6.9% at company stores and 7.3% at franchise stores for the year ended August 31, 2015.
2016: The outlook for fiscal 2016 anticipates 2% to 4% same-store sales growth and margin improvement between 75 to 125 basis points.
Share Buybacks: The company plans repurchases of $126 million of stock across the fiscal year.
Dividend: The company expects to pay a quarterly cash dividend of $0.11 per share fiscal in 2016.
Recent Share Price: $25.31

SUMMARY: Sterne Agee analyst, Lynne Collier, wrote clients that there were few surprises in the Sonic sales announcement. The company anticipates earnings growth of 14-18% in fiscal 2016.

For fiscal year 2015, Collier is maintaining an EPS estimate of $1.08 per share, and upping her fiscal 2016 projection by a penny to $1.26 per share. Collier said she was encouraged by Sonic's momentum and believes that technology initiatives and a strong new product pipeline will continue to set the compny apart from other QSR competitors.

There is some concern that Sonic's store base is based significantly in Texas—approximately 27% of the stores.

Surprisingly, Sonic's shares were hit hard by the sales announcement (down 8.4% on the day of the announcement) and the share price has declined from an all-time high of $36.73 on March 24th.

ANALYST COMMENTARY

Del Taco
TACO-NASDAQ
(Buy)
Recent Price: $14.50

Del Taco is primed to grow after dumping debt in a summer merger. The 547-unit Mexican concept blends QSR and fast casual aspects and its executives eye a 5-10% yearly growth target through 2017. After that, the brand aggressively plans to grow into new markets with a 2,000-unit goal.

Greg Badishkanian at Citi Research initiated coverage on the company with a "Buy" rating. He said "the company should achieve 8-9% annual EBITDA growth over the next 3 years with an average SSS increase of 4.2%." The unique rebranding and remodeling effort that began in 2013 is now showing returns. The project is expected to reach 90% of units by the end of 2015 and will "provide an ongoing catalyst for improved results by layering in additional upgrades down the road."

Badishkanian said the strong executive team will be "improving operating metrics and accelerating unit growth moving forward." The price target was pegged at $17 with an expected share return of 30.7%.

Dave & Buster's
PLAY-NASDAQ
(Outperform)
Recent Price: $42.80

Dave and Busters widened its margins and reported a whopping 11% same store sales growth in the quarter ending August 2. The casual dining and entertainment concept hit 77 locations with an additional five units in the second quarter, and raised development guidance to eight to nine stores in 2015. The chain is targeting a roughly 10% annual growth.

Raymond James analyst **Brian Vaccaro** wrote, "Revenue of $217.3 million (+19.8%) was $11 million ahead of our model." That substantial increase in revenue outpaced unit growth by a wide margin. "Comps reflected strength across all segments (amusements +14%, food +7.3%, beverages +8.3%) and was a further acceleration on a two-year stacked basis," said Vaccaro. He said the concept has the potential for more than 200 locations, so there is plenty of room to grow.

Vaccaro projects a $1.29 EPS for 2016 and rates PLAY at Outperform 2; which means the stock is expected to appreciate and outperform the S&P 500 over the next 12-28 months.

Red Robin
RRGB-NASDAQ
(Buy)
Recent Price: $79.18

Red Robin Gourmet Burgers is sailing along on significant tailwinds and reaping the benefits of a system wide remodeling initiative. The company reported a 14.6% increase in revenue in the 12-weeks ending July 12 and a 15.4% revenue bump to $677.2 million in the first half of the year. Sales comps were up 2.9% and diluted EPS rose 20% in the 12 weeks ending on July 12, coming in at $.78 compared to $.68 in 2014.

Alexander Slagle, an analyst at **Jefferies**, was most impressed by the systemwide remodeling effort which is roughly 50% complete. He said remodels have become "one of the biggest incremental drivers for Red Robin, with evidence of a 3.5-4.0% traffic lift in year one and modest continued outperformance in year two." Slagle projects an additional 1% comp growth acceleration directly from the remodeling efforts.

The gourmet burger concept had great luck with a surprise 7.5% year-over-year drop in beef prices and a stronger dollar that drives imported beef prices even lower. A strong loyalty program, craft beer rollout, to-go expansion, new menu items, ordering tablets and a new food cost management system may push their already strong 22.5% margin even further. Slagel targets a price of $97.

ANSWER MAN

Answer Man Grills Technology Guru Rob Grimes

What should my technology spend be as a percentage of sales?

Grimes: We've seen budgets running from 1% to 3% of revenues, however you need to take into consideration whether the budget is for the whole company, or a specific spend for operations or franchisees. Also, when considering what is included and what isn't, technology-related items like communications, connectivity, data security and corporate IT development are either in or out. Many technology costs are actually "hidden" in other budgets like marketing and purchasing where applications such as online ordering and back-office purchasing already exist. There is also a difference between store-level and franchisee technology. Included in this might be corporate support for things like help desk and menu management—it is much clearer when these services are outsourced and charged back, but when coming from corporate IT support and possibly included in the royalty or management fees, this becomes confusing. A clear definition of what is included is needed to come to the right answer for your organization.

Should my technology spend be focused on sales building or expense control?

Grimes: It depends on the economy. When the economy is down the focus is on expense control, in particular things like back-office applications for labor, inventory, ordering and cash control. But in a good economy, customer-facing technologies take center stage, and not just POS, but tableside "kiosks," mobile applications, digital signage, etc. The good news is that with almost all technologies going to cloud-based and SaaS (software as a service) types of technologies that are paid on monthly fees, the upfront and then ongoing costs to put these technologies to work for you are spread out.

Who should IT report to?

Grimes: Traditionally, technology management and support areas have reported to finance and the CFO directly. But over the past few years, with more and more technology applications being split between IT and marketing, IT management becomes a leadership position reporting to the CEO.

What is your opinion of self order kiosks for QSR? Is this a realistic option or should operators just focus on mobile?

Grimes: This is one of the areas that falls under determining the investment in "fads vs trends." In reality, this question is one in which the software applications and the hardware on which it runs becomes less important. Operations needs to be prepared in a number of ways for self-ordering. They need to provide mobile applications. They should take the lead of Starbucks and others in putting this out there. At the same time, a tablet-based technology used at the counter for POS can transition into one used for "line-busting" or a kiosk. So again, one application that works for POS, online ordering and mobile support can be used in several different formats and devices—all being classified as kiosks.

Table top ordering devices have been installed in restaurant chains for a year or so. What are operators saying about these devices?

Grimes: This is one area yet to be clearly defined. While some chains have put the devices tableside, others have given the tablets to the server. Some chains offer the application for the guest to use on their own device. At the end of the day, like kiosks, the answer is probably "yes" to all of these, but if you ask me who wins out in the end and where to invest, it will be the application that can best be used by the server or the guest first and then decide on the right device. In the casual segment, consider this like the seat back on a plane—even with wireless now offered on planes, there are still things that are best offered on a separate device. In the end, you want to increase check average, decrease service time and provide a more direct line between the guest and the server.

What technology solution would you suggest to a restaurant chain wishing to gain better control of labor costs?

Grimes: An integrated solution is the way to look at this rather than separate parts and pieces. Labor cost control is based upon real-time sales data as well as forecasts. There are also the separate and distinct applications within labor control that are included in an HR information solution. The link between sales and item data that is found in the POS and back-of-the-house applications is also key. Also consider things like where the actual "clock-in and clock-out" occurs such as on a time clock, PC or the POS. Consider each of these areas individually and specify them completely, and then look at single, integrated solutions or an "all-in-one" solution that meet these requirements. Where the application resides, either on a front-of-the-house or back-of-the-house solution will be determined by considering these directions upfront.

Answer Man's questions were answered by Rob Grimes, CEO and Founder of the International Food and Beverage Technology Association and ConStrata Technology Consulting.

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