

Fast impact

Fast casual quickly affects entire restaurant industry

New fast casual concepts keep emerging for a simple reason: diners like going to those restaurants.

By Jonathan Maze

Ryan Timm was a fresh-faced college kid when he came across a salad franchise during a trip out west. "I liked the idea of a restaurant that sold nothing but salads," he said. So, even though he had never thought of the restaurant business before that, he jumped on the chance to become the area developer in Minnesota for Salad Creations—the Florida-based franchise aiming to become the first nationwide salad chain.

Four years after the first Salad Creations opened, the company has 36 locations and is opening them at a rate of one per week. As of press time, it had deals that would expand the chain to 87 locations. Yet its eyes are far bigger. "We'll be the leading salad chain by the end of '08," said Jeff Levine, who founded the company.

Salad Creations is one of perhaps dozens of smaller, fast-casual chains that hope to grow into much larger companies by taking advantage of consumers' desire for quick and healthy food options. Such concepts are propelling the fast-casual sector at a time when the \$537 billion restaurant industry as a whole is facing numerous challenges.

Much of this growth is being fueled not just by traditional fast-casual concepts like bakery-style restaurants and Mexican chains, but also by restaurants serving more specialty



Mike Lassiter runs Rising Roll Gourmet and franchises Justix.

items. More chains are selling salads, like Salad Creations and Pennsylvania-based Saladworks. And other menu items are just emerging—California-based Red Rock Chili concentrates on its namesake, chili, and Atlanta-based Justix serves grilled meat and veggies skewered on sticks.

The disproportionate number of emerging fast-casual chains makes estimates of the sector's size difficult. Fast Casual Magazine says that the sector's chains earned \$10 billion in sales last year—a fraction of the overall industry. The market research firm Mintel Group expected the sector to take in \$11 billion in sales in 2007. Other estimates of its size, however, are much larger, and many experts believe the numbers might be undercounted.

Even the definition of fast casual is in dispute. Frequently, there is little to distinguish a fast-casual restaurant from a quick-service chain—and many fast-food restaurants would love nothing more than to be known as fast casual. It's common, in fact, to see quick-service chains like Arby's listed as fast casual in online directories.

It is certain, however, that fast casual continues to make its mark on the entire restaurant industry. Fast-casual restaurants are taking business away from fast-food chains by offering options people consider healthy along with a more stylish dining area. Casual chains are losing diners largely because people can better control their time at fast-casual outfits, said Dennis Lombardi, executive vice president for food service strategies at retail design firm WD Partners.

In response, quick-service restaurants have rethought their menu, including items with fresher ingredients, and have upgraded their dining areas. Casual chains also are taking notice. Don Pablo's and California Pizza Kitchen are experimenting with fast-casual extensions of their brands. Bakers Square is taking it a notch further, experimenting with a fast-casual counter at one of its restaurants in suburban Minneapolis.

More casual restaurants are also beefing up their curbside

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continued

options—an advantage that they have over fast-casual restaurants, which generally don't have such services. Applebee's introduced carry-out service in 2002, and by 2006 it accounted for 9.7 percent of restaurant sales, according to the company.

While some of these efforts have slowed fast casual's growth more recently, the sector is still growing at a faster rate than restaurants as a whole, experts said. And they predict that will continue to be the case, especially as restaurateurs flock to the sector.

John and Cindy Lupi owned an upscale restaurant in Georgia when they developed their idea for a fast casual franchise—Justix, where customers can purchase grilled chicken, salmon, tofu or other meat items that are served on skewers. The chain has three locations but is franchising through Georgia-based Franchising Concepts. "We think it's going to be huge," said Mike Lassiter, president and CEO of the company. "We're very excited

which boasts a big catering business and a 73-item menu, has 12 locations and agreements for another 30.

Mexican is another area of strength for fast casual—three of the 10 largest fast casual chains serve Mexican food, led by Chipotle and its \$837 million in annual revenues. One of them is California Tortilla, an 11-year-

old chain with 31 locations that is focused on building a presence up and down the East Coast.

about our launch." Entrepreneurs love fast casual for several reasons. They're less expensive to launch than a casual restaurant and they're more easily expanded. Their check averages are higher than quick-service restaurants, and so are their unit volumes.

Yet success is hardly guaranteed—just ask Boston Market, which grew too fast in the 1990s and ended up in bankruptcy. Boston Market is not a franchise, though Sun Capital Partners, which is known for franchising, recently purchased the chain from McDonald's. Wendy's, the burger chain, was forced by activist investors to sell its struggling Baja Fresh Mexican Grill in 2006 at a considerable loss.

Experts, however, believe that there remains considerable growth potential in fast casual, especially as new concepts emerge serving up different or more specialized menus.

Salad may be one menu area

poised for strong growth. Market leader Saladworks, the 21-year-old chain based in Pennsylvania, has 80 units and had expected another 10 by the end of 2007. Salad Creations expects even faster growth. "This is definitely what people want," Levine said. Others seem to think so, too. Many other companies, like Doc Green's, Tossed, Green Leafs and Green Tango, are offering salads as a primary item.

Many fast-casual chains, including the salad concepts, Justix and others, promote themselves as healthy options. Others target diners in search of more ethnic cuisine, and experts expect to see more ethnic chains make their presence felt in the market. Greek food, for instance, may be an option that is ready for growth. The non-franchised California chain, Daphne's Café, has 81 units and appears to be on an upward track. Asian restaurants, such as Chinese and Thai food are becoming popular

fast-casual options, and some say Indian food could become a more common option.

Yet many new concepts continue to go after areas that are already well served with fast-casual options. Bakery or upscale sandwich concepts are still trying to replicate the success of Panera Bread—which, with \$1.9 billion in revenue in 2006, is by far the biggest fast-casual chain.

These concepts promote their baked-in-the-store bread and have names like Grains of Montana and House of Bread. "Every day, it seems like there's another concept rolling out there somewhere," said Marc Geman, CEO of the Denver-based Spicy Pickle, which is one of those sandwich concepts. Lassiter, of Franchising Concepts, is also behind an upscale sandwich restaurant, Rising Roll Gourmet, which hopes help from The Findley Group will propel it to significant growth. The chain,

Largest fast casual chains

Here are the 10 largest fast-casual chains in the nation, based on 2006 sales.

- Panera Bread—\$1.9 billion
- Panda Express—\$917.6 million*
- Chipotle,—\$823 million*
- Boston Market,—\$680.3 million*
- El Pollo Loco—\$528.1 million
- Jason's Deli—\$360 million

- Fuddruckers—\$330 million
- Baja Fresh—\$325 million
- Fazoli's—\$313 million
- Qdoba Mexican Grill—\$310 million

* Boston Market has no franchise units; only a small percentage of Panda Express and Chipotle units are franchised.

Source: GE Capital Solutions Franchise Finance