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The Pipeline

Making moves, from fast-casual gobblers to smoothie operators

DAVID FARKAS

The fast-casual segment is gobbling up menu categories faster than you can say, “That’s amore!”

Not long ago, for example, developments in oven technology ushered in a new breed of pizzeria capable of spitting out high-quality pizzas within two to five minutes. Some industry experts now believe fast-casual pizza is on the cusp of significant expansion.

Count John Walch among them. The former Panera Bread franchisee spent 2012 seeking the second coming of the popular, fast-casual concept after he and a partner sold their Milwaukee-based franchise. “I was looking for a fast-casual company with some of the same benchmarks” as Panera—“great integrity of product and a team that understands what it takes to grow,” he says.

Enter Blaze Pizza, which describes itself as “the leader in the fast-casual, build-your-own pizza category.” Walch liked what he saw and inked a six-unit agreement with the Pasadena, California-based franchisor. He expects to open the first of six units—a 2,650-square-foot space—in a Milwaukee suburb later this year, and to self-fund the first two restaurants before seeking conventional financing.

“If I can get these units open, the income from a cash-flow standpoint will allow me to stop there or go bigger,” he says.

Blaze did Panera one better, in fact. “Panera is more complicated,” explains Walch, who grew up in a restaurant family and majored in restaurant management at Michigan State. “Blaze made sense to me. You can have great quality and be really good at one thing.” Customers customize their own pizzas or order one of nine “signature” pies, which are baked in a gas-fired oven.

It didn’t hurt that two executives from Buffalo Wild Wings and Chipotle, with expertise in franchise sales and real estate, respectively, had joined Blaze, which operates two company units. Founder Rick Wetzel is the creator of Wetzel’s Pretzel’s, a franchised chain he sold to a private equity firm in 2007.

Looks like there’s plenty of room for growth. Technomic estimates fast-casual pizzerias (chain and independent) number from 750 to 1,000—yet only about 150 feature build-your-own menus. In a country where more than 40 percent of consumers eat pizza at least once a week, it's safe to say Walch is onto something.

Smooth operator

Steven Shields has been convincing people for years they, too, could be onto something by dropping $25,000 to buy a Smoothie King franchise. The 40-year-old juice bar concept, based in New Orleans, made news a year ago when its large South Korean franchisee acquired the company from longtime co-founders Steve and Cindy Kuhnau. The purchase was backed by a Korean private equity consortium that invested $46 million in the deal.

Today, new owner and CEO Wan Kim has big plans. "New ownership has sent a message that we are serious about growing the brand," offers Shields, a senior business development manager and, not incidentally, a four-unit franchisee. The goal is to add 800 franchise locations in the United States over the next five years. Smoothie King franchises about 600 units operating in 32 states, the Caymans and the Republic of Korea.

To reach the number, company marketers are employing more aggressive tactics, including advertising in trade publications, sponsoring events and advertising on satellite radio. "We've been doing PR stuff that's strictly related to franchise development," Shields says.

The company also trimmed its franchise fee to $10,000 for existing franchisees. "Saving $15,000 may sound like a lot of money, but it's still a big decision when you're investing $250,000 in an additional store," Shields concedes. Nonetheless, he claims 49 operators took advantage of the incentive.

Shields remained on the sidelines. He couldn't add a new unit because his mini-empire is within the New Orleans market, already brimming with 35 Smoothie Kings. He can only open another one if a franchisee agrees to sell. And, to date, few have been motivated to do so given the strength of the brand in the Big Easy.

Shields nonetheless has identified stores in areas where the demographics have changed—areas ravaged by Hurricane Katrina, for instance. That was the case with his second unit, which he relocated to a busy intersection nearby and added a drive-thru—a costly process, all told. "But the brand recognition is extremely high," he declares, and even though moving the store is expensive, "it's a pretty safe bet. Drive-thrus are something we now are adamant about."

North of the border

Welcome Dan Christy, a real estate executive, to the restaurant fold and wish him luck since he has his own cash tied up in a multi-unit deal that involves a casual-dining concept.

Yikes?

Not quite. While casual-dining sales lag behind limited-service restaurants, the beleaguered segment has been making a comeback. In a Technomic survey last year, 82 percent of consumers claimed they visited a traditional casual-dining restaurant once a month. The market research firm attributed the high percentage to customers trading down from upscale casual.

Christy's confidence in his deal stems from equal partner Craig Colby, a former Burger King franchisee who operates four Red Robins and four Cosi. He and

five years. They plan to open even more Margaritas in the mid-Atlantic and Southeast.

Franchisor Margaritas Management Group, headquartered in Portsmouth, New Hampshire, operates 24 company-owned outlets mostly in New England. Officials only recently launched a franchise program. Christy and Colby are the second franchisees in the system.

The pair's first Margaritas opened in Lansdale, Pennsylvania, the week of Hurricane Sandy, and the second in June, in Langhorne, Pennsylvania, across the street from Sesame Place theme park. They have also identified sites in Wilmington, Delaware; Collegeville, Pennsylvania; and southern New Jersey. They plan to add another five Margaritas in northern Virginia.

Opening 6,000- to 7,000-square-foot restaurants that seat 250 and cost $2 million hasn't been easy. Landlords remain wary of over-populating centers with eateries and securing financing has been a struggle. The partners blew through $5 million raised via an SBA lender and have since sunk their own money into development. Still, despite the brand's relative obscurity outside New England, landlords are taking notice of average unit volumes that Christy claims are "well north of $3 million."

"It's more of us walking away than them walking away from us," he boasts.

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