

Fast Casuals Expand Outside the Box

Fast casual operators seldom get the opportunity to pitch their product to more than 76 million people through a single store, but with more frequency, fast casual chains are expanding into non-traditional locations — such as airports, colleges, hospitals, and stadiums — with startling success. The primary benefit is brand exposure, often to large groups of people hailing from across the country and across the globe. Lisa Gechman, director of real estate for Conshohocken, Pa.-based Saladworks, said having a store in a place such as O’Hare International Airport in Chicago, is the best and most cost-effective advertisement. “We have people who never heard of us go through a Saladworks in the airport in 30 seconds and it may be the healthiest thing they eat all week,” Gechman said. “Then they go back home and realize there’s nothing like that in their area. We have landlords, brokers and customers who experience it and send us an email or inquiry wondering when we’re going to their city.” The key to non-traditional venues, such as college campuses, is that there is a large, captive audience eager to spend money, said Paul Carolan, senior vice president of franchising for Einstein Noah Restaurant Group, owner of Einstein Bagels, Manhattan Bagels and Noah’s Bagels. “These venues enable us to grow a new customer base,” said Carolan. “We’re getting the opportunity to meet 52,000 college kids at the same time and have them for four years with a whole new batch behind them. These are customers you may not be able to reach for years before you expand into their home market.”

With most non-traditional venues there is little danger of cannibalizing traditional stores sales, Carolan said. For example, Einstein had a store across the street from Arizona State University. When they opened a new on-campus location, sales of the street store were not affected, he said. “Non-traditional food operators are under increasing pressure to provide healthy alternatives, and the customers in these venues — colleges, airports and hospitals — are aware of the benefits of eating healthy,” said Alex Rechichi, president of 10-year-old Extreme Pita. “In most cases we expect these stores to outpace our traditional stores by two to four times the volume.” Rechichi said their non-traditional locations typically rank within the top 10 percent of their locations in terms of food volume sold and are situated mainly on college campuses. **Prime time real estate** Another popular non-traditional venue is sports arenas. Atlanta-based Focus Brands, parent company of Cinnabon, Carvel, Schlotzky’s Deli, and Moe’s Southwest Grill, operates out of Yankee and Shea stadiums in New York, Giants Stadium in New Jersey, and the Wachovia Spectrum in Philadelphia, among others. President and chief executive officer Steve Romaniello said arenas present unique advantages as well as disadvantages, which can change depending on the seasonal sport played.

“You’re not going to find them at the corner of 4th Street and Podunk in Birmingham. They want these A locations in major markets like Atlanta and Orlando, but so do a lot of other people and the crunch is getting more and more severe.”

-- Aaron Allen,
Quantified Marketing Group

During hockey games the bulk of the food is sold between periods providing a limited window of opportunity. “Since we have a short period and we’re trying to maximize our sales, you have to modify and streamline the menu to serve a lot of people quickly,” Romaniello said. The franchise also is at the mercy of the fan’s happiness or disgust with the venue’s sports team. “We’re subject to the vagaries of attendance. You’re not driving people to come there, so if you cut a deal and the team stinks, and no one shows up, you assume most of the risk,” he said. “It’s very difficult to make a profit in stadiums because you’re paying a foodservice provider and then you have to pay sponsorship to the primary tenant or team in the stadium. But we do it because it’s great for brand awareness and to be an important part of the local marketplace.” Aaron Allen, CEO of Heathrow, Fla.-based Quantified Marketing Group, said the fast casual industry has forced itself into non-traditional locations due to its own success. Consumers are flocking to fast casual restaurants in hordes, leading to unprecedented growth over the past decade. And with that growth has come massive expansion, Allen said. “All of these new billion dollar companies are looking for locations in town centers or shopping developments. No one is going to B and C locations to put high-end fast casual concepts,” he said. “You’re not going to find them at the corner of 4th Street and Podunk in Birmingham. They want these A locations in major markets like Atlanta and Orlando, but so do a lot of other people and the crunch is getting more and more severe.” The increased demand and dearth of premium real estate also has created a seller’s market. “Landlords know if they have a premium space around a market with high discretionary income they can charge phenomenal amounts for rent and rent has put a lot of restaurant companies out of business,” Allen said. “Fast casual margins are significantly higher than they are in any other segment of the industry so they can weather higher rent. But even if they were willing to pay through the nose, there’s less inventory than people who want the inventory.” That’s not to say being forced into a non-traditional location is a bad thing. Getting into a traditional, street-location typically requires an investment of \$1 million to get back \$1 million in sales with a 5 percent profit, Allen said. But with the smaller, non-traditional stores, it is possible to invest \$1 million in three locations for \$2.7 million in sales and profits between 10 percent and 20 percent. “I think over the next few years you’ll see a lot of new alternatives and opportunities for non-traditional venues,” said Rechichi. “Many years ago you wouldn’t see them in stadiums but now they’re popping up all over the place because they’ve become great venues for brands to expose themselves.”