

# NATION'S Restaurant News

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## Yum leads lobbying of WTO to cut food tariffs

By Amy Garber

WASHINGTON — As operators scramble to battle high commodity costs, Yum! Brands Inc. has taken what it calls “a leadership role” in a newly formed

coalition that promotes international trade reforms in pursuit of more affordable food imports.

The lobbying group, called the Food Trade Alliance, or FTA, was

formed earlier this year with the goal of reducing international tariffs. As a result, the foodservice industry has leapt into the politics of global trade talks, which in

recent years have proved to be contentious.

“We support efforts to lower barriers to trade in processed foods and commodities, which would

ultimately lower the prices of our ingredients worldwide,” said Bill Ehrig, Yum’s senior director of government and international affairs.

(See *YUM*, page 59)



Executives at Morton’s the Steakhouse, whose porterhouse is shown here, said beef costs would increase in the “low single digits” this year.

## Steakhouse chains feel the pinch of high beef prices

By Sarah E. Lockyer

Three leading upscale steakhouse chains reported a mixed bag of first-quarter results, with lower traffic counts and continuing cost pressures from higher beef prices offsetting improved revenues, yielding only slightly higher earnings.

Lone Star Steakhouse & Saloon Inc.’s chief executive,

Jamie B. Coulter, in effect summed up the woes of the segment in noting that his company had had a “good quarter from a profitability standpoint” but also suffered from commodity inflation.

“While meat prices this past quarter were higher than [in the fourth quarter] of last year, they were modestly lower than [in the first quarter] of 2004,” Coulter said in a statement.

(See *STEAK*, page 6)

## KFC eyes return to ‘Kentucky Fried’ roots

Chain’s uptick extends into fifth month with 4-percent rise in same-store sales

By Susan Spielberg

LOUISVILLE, KY. — Yum! Brands’ KFC division, reversing a 14-year-long rejection of its “Kentucky Fried Chicken” roots, has revived that name at a prototype store here that is set for cloning at 50 more test locations this year before a possible national rollout.

A new, Southern-accented menu and an updated logo with a more youthful Col. Sanders mascot also debuted with the April launch of the Louisville prototype restaurant, which boasts a more upscale building design.

The possible precursor to a brand reinvention by 13,000-unit KFC includes a layout featuring low-set tables, cushioned ottomans and a digital jukebox.

The late Harland Sanders’ original Kentucky Fried Chicken

brand name is displayed on the interior and exterior of the restaurant, which offers such “Southern-inspired” items as a chicken mashed-potato bowl, \$3.99; collard greens, \$1.39; buttermilk popcorn shrimp, \$2.99; and sweet-potato pie, \$1.29 with the purchase of a meal.

The debut of the new-concept Kentucky Fried Chicken store came as Yum reported that KFC’s same-store sales had remained positive for a fifth straight month and were on par with sister chains Pizza Hut and Taco Bell, appearing to end nearly two and a half years of negative KFC comparisons.

(See *KFC*, page 60)

KFC president Gregg Dedrick wears the revamped “old-school cool” logo on his shirt inside the Louisville, Ky., prototype outlet.



## Pizza chains fight cheese inflation amid market tiffs

Operators push products, add fees to maintain bottom lines

By Amy Garber

Papa John’s Pizza, eager to reverse a prolonged sales slump and under the leadership of a new chief executive, wanted to make a big splash last month with its latest pizza introduction.

After learning that larger rival Domino’s Pizza was to be featured in an episode of NBC’s “The Apprentice,” Papa John’s scrambled to produce a commercial that would air during that series’ March 31 show. In the 30-second spot Papa John’s not only

touted its new pie but also poked fun at Domino’s, which spent millions to sponsor the reality show that stars Donald Trump.

Though several marketing pundits applauded Papa John’s acumen surrounding the ad, the chain and other national rivals, as well as regional and mom-and-pop pizza brands, are feeling even more competitive heat, stoked lately by commodity inflation.

As the pizza category struggles to adjust to a new higher-

cost paradigm in cheese prices, operators of all sizes are taking countermeasures, such as re-evaluating and implementing delivery charges and employing extreme belt-tightening tactics.

“We’ve been in business for 18 years, and this is the highest we have ever seen” cheese prices, said Andrew Gamm, director of brand development for the Dallas-based Pizza Patrón chain.

(See *REACHING*, page 37)



Domino’s Pizza paid an estimated \$2 million to \$4 million to have its brand integrated into the plot line of NBC’s “The Apprentice.”

Outback’s CFO, in retirement shocker, blasts ‘lunacy’ of lease accounting climate  
See page 6

# Good-service stories become myths that make a difference

You may recall from a couple of years ago a story about a family's amazing service experience at a Rochester, N.Y., unit of Bugaboo Creek Steakhouse — a concept owned by Atlanta-based Rare Hospitality.

The parents wrote to thank the restaurant on behalf of their son, who was being treated for cancer. They said the young woman who was their server touched them beyond measure. What this clever woman did, right in the dining room, was invite the youngster — who was wearing a sad face and coloring with dark crayons — into her arms for a “secret” bear hug that, she said, just might be able to make him feel better.

Experiences like that, fueled by compassion and steered by discretion, abound in this industry. And the stories about those experiences that get retold and remembered deserve to become part of the customer mythology of every restaurant.

But there also can be concerns about server impropriety, guest privacy and restaurant liability. What if a family feels injured by a server's curiosity? What if a lawsuit is filed against the restaurant?

Concerns like those may be perfectly valid. Still, mythmaking is one secret to customer loyalty.

There are good stories and bad stories about restau-



rants by the hundreds. Susan Nardizzi, brand development director at Rare Hospitality's LongHorn Steakhouse group, has such a collection. She recently shared some examples from LongHorn's Loyalty R.U.L.E.S. employee recognition program.

For instance, one couple who dined at a LongHorn unit in Raynham, Mass., found an employee cleaning the snow from their car upon leaving the restaurant late one night. Refusing a tip, the worker asked only that they come back again for dinner.

For that service, the couple e-mailed the unit to say it quickly was becoming one of their favorite restaurants “because the employees go above and beyond.”

There also is a server at the LongHorn unit in

Nashua, N.H., who has become “a major force in the charitable community,” according to the server's manager. The server took charge of a program that identified 220 needy children and then raised money to purchase gifts for them. She gave out the gifts at the Nashua Soup Kitchen, and “the entire time she was working, she made sure to let everyone know that many of her volunteers were from LongHorn Steakhouse, thereby sharing the credit among her fellow workers,” her manager said.

A server at a Greensboro, N.C., LongHorn, touched by the company's participation in holiday charity events, founded a volunteer peer group called “Servers That Matter.” It organized a food drive for the Salvation Army and gave inner-city children a tour of the restaurant to let them experience foodservice as a career opportunity.

Now the group is planning a regional bowl-a-thon for Junior Achievement and a walk-a-thon for the Juvenile Diabetes Research Foundation.

Consider, also, the grill chef at the LongHorn in Delray Beach, Fla., who has earned a reputation for his kitchen skills and mentoring. “Some guests even call ahead to make sure [the chef] is working the grill — and others pop their heads in to say, ‘Thanks for a wonderful meal,’” the manager boasted.

## NEWS

# KFC eyes return to ‘Kentucky Fried’ roots as sales uptick continues

(Continued from page 1)

Same-store sales for Yum-owned U.S. KFC units rose 4 percent for the four weeks ended April 16, the same percentage as the blended results for all three brands.

KFC had abandoned the “Kentucky Fried Chicken” name in the 1990s in favor of the more neutral three-letter moniker — an effort to distance the brand from fried-food connotations.

The opening of the Louisville store, which is considered a one-of-a-kind laboratory, follows the remodeling of a KFC unit in Washington, D.C., last summer that now also goes by the Kentucky Fried Chicken name but still has the old logo. Sales have risen 20 percent at the Washington restaurant since its reopening, KFC spokeswoman Bonnie Warschauer said.

“We’re going to marry some of the things that we’ve learned from that store with some of the

things that we will be learning from this [Louisville] restaurant, and we’ll take the best of the best,” she explained.

Warschauer said the 50 test stores will be remodels in both urban and suburban locations and will include Yum-owned and franchised outlets. She did not specify geographic locations but said the “Kentucky Fried Chicken” name, the updated logo and the new menu items would appear in all 50 branches.

“The big thing that I think we’ve done here in Louisville is try to capture ‘old-school cool’ — the blend between the contemporary and “the great heritage that we have in the brand,” Yum chairman and chief executive David Novak said in a conference call with investors.

“A brand's heritage can either take you forward or it can hold you back,” he continued. “What we don’t want to do is live in the

past at KFC.”

“People are looking for a reason to give KFC another try,” said Tre Musco, chief creative officer and chief executive of San Francisco-based Tesser Inc., KFC's brand-imaging agency. “But the current image is a little dated and doesn’t have a feel and a contemporary image that relates to younger consumers or consumers who are looking for a healthier lifestyle.”

Musco added: “So what we want to do is bring a lot of respect to the heritage of the brand in a more contemporary way.” The “old-school cool” approach takes KFC's brand heritage and “reinterprets it in a fresh, hip way.”

The new Col. Sanders is more energetic-looking than his predecessor was, and he sports an apron instead of his trademark white suit. Musco said research had indicated that 75 percent of KFC's U.S. consumers thought of

Col. Sanders only as a brand salesman and did not associate him with the food, something the apron imagery now corrects.

KFC's pending rebirth in the United States comes as the brand faces a challenge in China, Yum's fastest-growing market, posed by the finding of an industrial dye linked to cancer in chile powder used in two KFC products that were pulled from the chain's nearly 1,200 outlets there. After the March discovery of the red dye, Yum said it was investing more than \$240,000 to develop a “state-of-the-art food safety inspection laboratory” in China.

Yum's management called the incident a “short-term bump in the road” and said the ingredient issue had been resolved. Despite the bad publicity, Yum said it is “confident sales will rebound in China.”

The problem there was offset in part by sales growth in the

United States and elsewhere abroad by KFC and the 11,000-unit Pizza Hut and 5,000-unit Taco Bell chains.

Yum, which also owns the Long John Silver's and A&W restaurant brands, reported that global systemwide same-store sales rose 3 percent for the first quarter ended March 19 as corporate revenues increased 4 percent to \$2.05 billion.

Yum's operating profit from worldwide activities rose 8 percent to \$264 million, but U.S. operating profit fell 6 percent to \$162 million, which Yum blamed on “significantly higher” commodity costs, especially for meats and cheese. U.S. revenues increased 3 percent to \$1.34 billion for the quarter.

Net income grew 13 percent to \$161 million, or 53 cents per diluted share, for the quarter, helped by the improved operating earnings and lower interest expense.