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Small area restaurant chains see growth options, obstacles

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Lookout Tin Drum fans: Founder Steven Chan is planning to share a homegrown favorite restaurant with the rest of the world.

After years of prodding, Chan is franchising the Pan Asian fast casual concept he started on Georgia Tech's campus in 2003. It's a big step because he's operated the business on very little debt, which he's achieved by slowing adding locations as his budget has allowed.

But Chan, like dozens of other local metro restaurateurs, has caught expansion fever. Several owners -- including Grecian Gyro, Uncle Maddio's Pizza Joint, J.R. Crickets and Marlow's Tavern -- are either widening their base here with new locations or stretching out of state, according to industry experts.

Their goal: become the next Zaxby's, Arby's or Chick-fil-A.

Experts say they should proceed with caution. For every success story such as Atlanta-based Church's Chicken, there's a cautionary tale like Raving Brands.

Prior to the financial collapse of 2008, Raving, which owned Moe's Southwest Grill, Shane's Rib Shack, Mama Fu's and five other brands at the time, was expanding at an accelerated rate, opening stores side by side by signing multiple leases simultaneously. But the rapid growth overwhelmed the company -- some suggest it eschewed operating fundamentals for expansion -- and four years later, almost all its brands have been sold.

Driving the desire to grow is low real estate prices and the easing of credit for restaurateurs. That has led potential franchisees, often people who want to be their own bosses, to line up to take advantage of the expansion opportunities.

Especially popular are fast-food and fast-casual chains, whose smaller footprint make entry at about $250,000 to $500,000, industry leaders said. Sit-down and fine dining restaurants can cost between $750,000 and $2 million.

And same-store sales for restaurants in metro Atlanta are up, despite the uneven economy, experts said.

But desire alone won't cut it. Operating a restaurant is an underestimated tough job. Food prices have soared as gas prices have forced transportation costs to skyrocket. And not every concept, no matter how well accepted it is locally, will be successful elsewhere, the industry leaders said.

Despite a proven track record, Atlanta-based Peasant Restaurants wasn't able to duplicate the success of its Pleasant Peasant, Country Place and Public House dining establishments in the 1990s cities when it tried to expand Washington, D.C., Philadelphia and Minneapolis. Today only the Pleasant Peasant at Centennial Olympic Park exists.

Restaurateurs who try to maintain control and grow with company-owned stores find they need to raise millions to expand from a handful of stores, a monumental task if they are not well capitalized.

On the other hand, franchisers can also find themselves at odds with franchisees who might want to cut corners to increase profits, hurting the brand and raising the ire of the concept owner.

"Not every franchisee is going to make money," said Steve Beagelman, founder of SMB Franchise Advisors, a consulting company specializing in advising franchise start-ups and existing franchise concepts. "You have to talk about an exit strategy and get them out fast."

It took Wing Zone two years to see a profit from franchising after the Atlanta company started offering the option in 2000, said Matt Friedman, its chief executive officer and co-founder. The restaurants operated on thin margins those two years as franchisees and the company learned how to make the numbers work while the restaurants established themselves.

Friedman said franchising is so different from operating company-owned stores that Wing Zone officials sold six of the seven company locations it had in 2000 to focus on franchising full-time. The company held onto one store so it could understand what franchisees were dealing with operationally.

Some problems become litigious. In 2007, several Moe's franchisees in Georgia and Tennessee sued Raving Brands for a number of alleged misdeeds, including not spelling out in contracts how money was accessed for advertising and how funds collected in a "Cinco de Moe's" charity fund-raiser was distributed. Moe's was later sold to Atlanta-based Focus Brands, owner of Schlotzsky's and Cinnabon.

Even brands that seem strong can falter. Mick's, a popular casual dining brand owned by Peasant Restaurants, had 29 restaurants around the nation during its heyday between the early '80s and mid '90s. It was subsequently sold and the chain ceased operations around 2000.

But the risk is worth it, those in the industry said. For every potential headache, the opportunity exists to become the next Popeyes, Waffle House or Hooters of America, all Atlanta-based giants.

Nick Koulouris opened Grecian Gyro in Hapeville in 1982, but the idea of franchising didn't take shape until his sons, George and Pano, opened locations in Tucker and Forest Park in 2007 and 2008, .

"I didn't know anything about the franchise process," said George Koulouris, the company's business manager. "We thought [creating the chain's franchising business plan] would be done in six months. It's taken two years."

Challenges included setting up required legal documents, formalizing vendor contracts and writing the operator's manual, a guidebook that narrates everything from how to cook lamb to the proper way to greet guests. George Koulouris even took a Small Business Administration course to better understand financing opportunities that could help potential franchisees.

Not everyone who approached the brothers was granted a franchise, he said.

"We turned down 10 people before we chose our first franchisee," he said. "Some of the people were already franchisees and it did not seem like they were buying into our system. I think they were going to get the franchise and adapt it."

He said the company plans to open two franchised restaurants this year and three in 2013 to bring the total to eight.

Christine Dolgetta, who will operate the first Grecian Gyro franchise with her husband Joe and Steve Van Wey, said getting the restaurant ready for opening, set for early June in Johns Creek, has been eye-opening. Novices in operating a restaurant, every day has been a new challenge, from meeting with contractors and linen services to interviewing wait staff.

The owners dipped into savings and got a bank loan to finance the restaurant, Dolgetta said. She would not divulge the cost, but George Koulouris said the brothers want to keep opening expenses between $100,000 to $160,000.

"My husband really learned how to haggle prices," Dolgetta said.

John C. Metz, executive chef, president and co-founder of Marlow's Tavern, is taking another route. The sit-down eatery will open its ninth location at the end of July in Dunwoody. That tavern, like all the others, will be company-owned.

Metz said Marlow's Tavern, which has all its locations in metro Atlanta, would rather grow by adding partners to management, rather than to chance franchising and compromise its service levels.

"It's really about the right people for us," he said, adding the company hopes to open another two or three locations in the next five years. "We want to grow, but we want to grow right, to grow smart."

Then there is also a middle ground. Hooters has 161 company-owned stores and 204 franchised operations, said Hooters chief executive officer Terry Marks.

"It helps with our credibility as an franchiser," Marks said, adding that future stores will be franchised because they have enough company locations. "You can't tell a franchise what to do unless you're willing to do it yourself."

As for Tin Drum owner Chan, he plans to take his growth slow. He added his first three franchised locations this year and another three will come online soon after to make for a total of 13 stores.

"While I'm ready to expand, I think of this as a marathon, not a sprint," said Chan. "I have a long-term plan for Tin Drum. This doesn't have to happen overnight."
