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Information

# Chain Leader®

INSIGHT FOR RESTAURANT EXECUTIVES

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## Industrial Lite

A soft yet modern interior helps differentiate Qdoba.

Page 28

## Rite of Passage

Iowa's Maid-Rite is taking its signature loose-meat sandwich national.

Page 63

*Jon Luther, CEO, Allied Domecq QSR*

## LUTHER'S REFORMATION

Transforming the aging brands of Allied Domecq QSR.

Page 53

BY DONNA HOOD CRECCA

**S**ince 1998, Jeff Bernstein has acquired three restaurant brands out of bankruptcy: Pudgie's Famous Chicken, Arthur Treacher's Fish & Chips and Wall Street Deli. A fourth, Burritoville, was in dire straits.

And he's hungry for more.

"I look for companies that have great products, good unit economics but excessive [general and administrative] costs," says Bernstein, president and CEO of TruFoods Corp., the Lake Success, N.Y.-based firm that manages the brands. "Our goal is to create an efficient and effective infrastructure to revive the restaurants and make them profitable again."

#### Up to the Task

A former foodservice broker, Bernstein spent three years with New York-based Cooky's Steak Pubs. As COO and CFO of a real estate company that went through bankruptcy in 1989, he learned the ropes of that process and went on to open Consolidated Services Inc. in 1990 to help companies manage bankruptcy.

"Jeff Bernstein is the only good thing

# Looking for TROUBLE

*Buying chains out of bankruptcy, TruFoods'*

*Jeff Bernstein is working to revive struggling brands.*

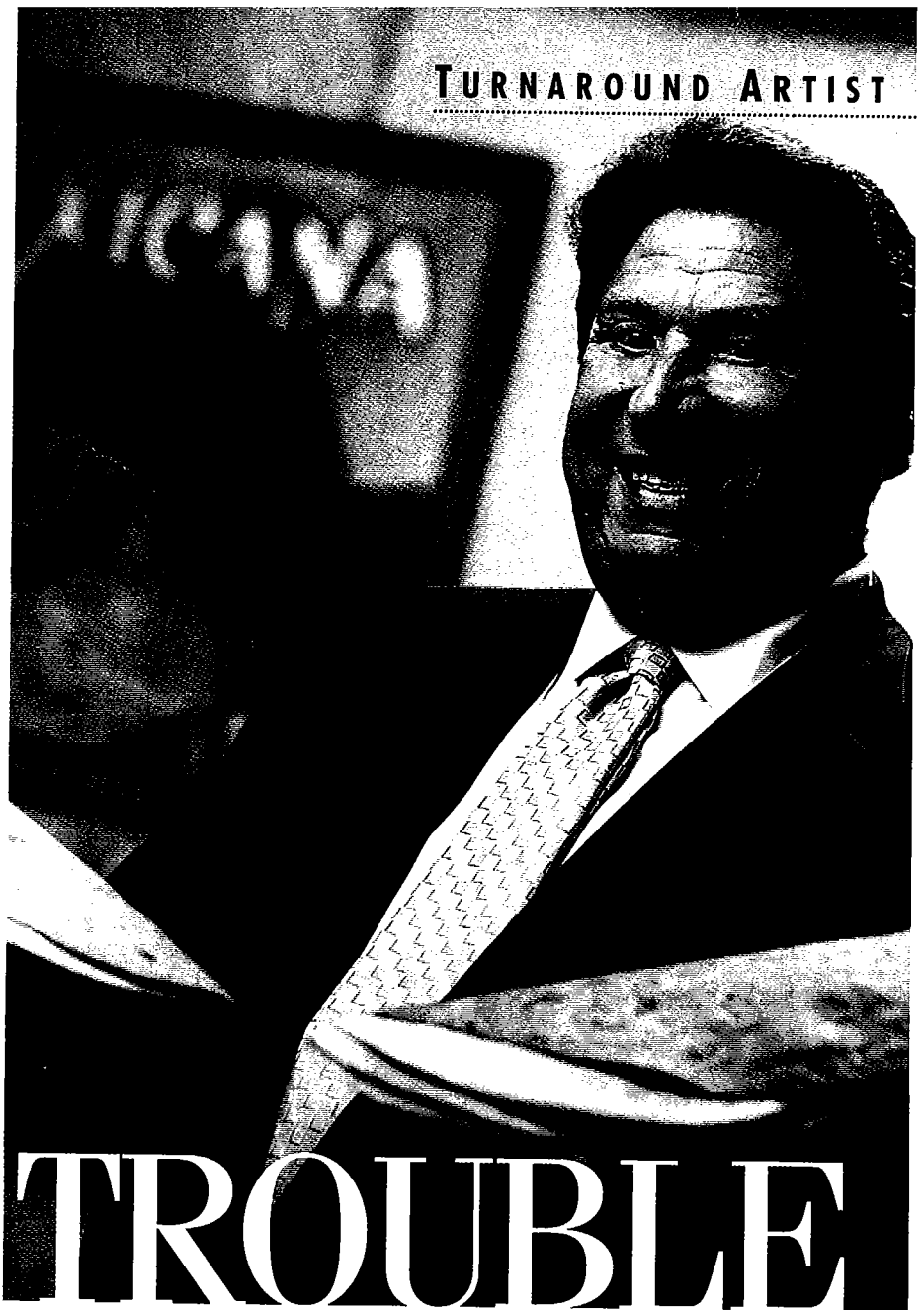
that came out of my bankruptcy," says Lyle Stuart, owner of Barricade Books. Bernstein helped the Fort Lee, N.J.-based publisher work through a five-year bankruptcy.

"Jeff asks and answers the tough questions and never loses sight of the reality of a situation," Stuart explains. "He helped us preserve this company against several attempts in the courts to restructure it. He helped us streamline and remain intact."

#### Shopping Spree

Bernstein's chain shopping spree began while in bankruptcy court one day in June

TruFoods Corp. President and CEO Jeff Bernstein made his most recent acquisition in March: New York's Burritoville.



## TruFoods' debt will soon be under \$1 million, Bernstein says.

Bernstein was attracted to Pudgie's core product: skinless, bone-in fried chicken. He purchased the concept in 1998.

### SNAPSHOT

#### COMPANY

TruFoods Corp.

#### CONCEPTS

Pudgie's Famous Chicken, Arthur Treacher's Fish & Chips, Wall Street Deli, Burritoville

#### 2003

##### SYSTEMWIDE SALES

\$56 million (fiscal year ended June 30)

#### 2004

##### SYSTEMWIDE SALES

\$72.5 million (company projection)

#### TOTAL UNITS

154

#### EXPANSION PLANS

5 to 10 Pudgie's, 15 Arthur Treacher's, 10 to 15 Wall Street Delis, 25 to 40 Burritovilles in 2004

1998. He overheard that Pudgie's, one of his favorite local eateries, had filed Chapter 11 and its assets were for sale. He snatched up the then 39-unit chain for \$425,000 and assumed its \$700,000 of debt.

In October 2000, Pudgie's merged with Arthur Treacher's Inc., then a subsidiary of Digital Creative Development Corp. Bernstein became CEO of Arthur Treacher's Inc. and co-branded the two concepts.

Birmingham, Ala.-based Wall Street Deli's bankruptcy then caught Bernstein's eye. With the help of private investors, he snagged the 80-unit chain for cash and assumption of liabilities totaling an estimated \$4.3 million in January 2002.

The Internet bust had left Digital Creative unable to fund growth of Pudgie's and Arthur Treacher's, so Bernstein again tapped private investors and formed PAT Franchise Systems to acquire them for \$2 million in February 2002. He formed TruFoods Corp. as a management firm for the three brands.

Then the owners of Burritoville asked for help. Although its 12 units were profitable, Burritoville was under severe financial pressure. New York State Attorney General Elliot Spitzer was investigating claims that the company denied workers vacation and overtime pay, while a local union was trying to organize employees.

Bernstein purchased the chain in March, paying \$500,000 to employees as part of the undisclosed purchase price. In June, employees voted not to organize.

#### Inside Job

With the closing of unprofitable units in each chain and the refranchising of all but one Wall Street Deli location, Bernstein estimates TruFoods Corp.'s debt will be under \$1 million.

Meanwhile, Bernstein has been assembling an executive team. Executive Vice President and COO Ritu Dewan, a former



Pudgie's exec, Vice President and Treasurer Barry Knepper and Director of Marketing Jacque Vandekieft all have multibrand responsibilities. Burritoville founder David LaPointe was brought on as executive chef for all concepts.

The turnaround strategy is straightforward: revive franchisees' faith, instill confidence in TruFoods' leadership, establish operations, review products and brand awareness, and identify new directions.

Creating an infrastructure in which all brands shared in G&A costs but operate individually was the first priority.

"Pudgie's, Arthur Treacher's and Wall Street Deli all suffered the same problem: too much top-line focus," says Dewan. "There were no economies of scale, no supervision or visitation of franchisees, no sustainable marketing programs. No one was watching the bottom line."

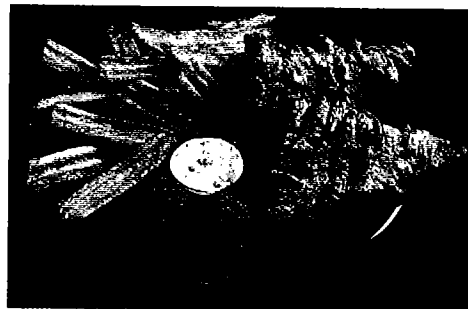
"All the franchisees now benefit from the volume numbers of all four concepts when it comes to administrative costs, marketing expertise and purchasing opportunities," says Bernstein.

To provide support in the field, Dewan hired concept directors for each brand, as well as regional franchise supervisors and training managers. Bernstein and Dewan also meet regularly with franchisees.

"They've really made themselves accessible to us as franchisees," says Wright Gore, who operates a Wall Street Deli in Lake Jackson, Texas. "We were pretty much adrift until TruFoods came along. Now we know who to call, and things actually get done."

#### Now for the Hard Part

"The good news is that Bernstein bought these brands," notes Allan Hickok, a restaurant consultant in Minneapolis. "The



*First priority:  
Combine  
G&A costs  
while enabling  
brand  
independence.*

*At Arthur Treacher's, Bernstein immediately put the kibosh on the seafood grill concept being implemented by the prior owners and returned the chain to its fish-and-chips origin.*

bad news is that these are old brands competing in a world in which the consumer now has many more choices, all with equal convenience. It's a tough challenge that will require TruFoods to create competitive points of differentiation."

For Bernstein, that means building on what originally attracted him to each brand. Skinless, bone-in fried chicken is the signature product at Pudgie's. TruFoods is now marketing its health benefits and developing grilled items, sandwiches and sides.

"The Pudgie's menu has been static for a long, long time," says Tom Giancaspro, president of Tomcat Management in Hauppauge, N.Y., who operates two locations. "There's a lot more competition now, so we're glad to be looking at new menu segments and items that can grow the sales."

Pudgie's annual sales average \$400,000 on checks of \$13. Same-store sales are down 5 percent, but TruFoods projects that new menu items, trade dress and marketing, plus lighter G&A costs and better support, will increase volumes by as much as 25 percent over the next year or so.

All but one of Pudgie's 30 stores are co-branded with Arthur Treacher's. Five to 10 Pudgie's should open in 2004, primarily in its core market of metro New York and Long Island, N.Y.

### **Gone Fishin'**

Upon purchasing Arthur Treacher's, Bernstein immediately returned the chain to its origins—British-style fried fish and shrimp. New marketing focuses on the core products. Contracts with new vendors brought a higher-quality fish and complementary items like fried mozzarella sticks and jalapeños.

TruFoods closed 42 units to focus on core markets New York and Ohio and implemented consistent trade dress. Bernstein plans an aggressive franchising campaign, expecting 15 new units in 2004

and more than 20 in 2005.

Sales volumes range from \$450,000 to \$750,000 annually. Checks average \$7, and same-store sales are up 1.5 percent.

"This is a brand with great recognition in its core markets, and the co-location with Pudgie's works well to give the consumer more choices and the franchisee more revenue opportunities," Bernstein says.

Both Pudgie's and Arthur Treacher's became "marginally" profitable last year, says Bernstein. Pudgie's ended fiscal 2003 on June 30 with \$10 million in sales and is projected to gross \$12.5 million this year. Treacher's generated \$15 million in fiscal '03; it anticipates \$20 million in '04.

### **Street Savvy**

Wall Street Deli came under Bernstein's umbrella with 80 stores that lost \$8 million in the year prior to filing Chapter 11. At press time, 33 franchised and 11 company-owned locations were operating in 11 states and Washington, D.C., and Bernstein was in the process of refranchising all but one corporate store.

The flagship location, in the Atlanta airport, introduced a new look with softer colors for the gourmet sandwich, soup and salad chain. Systemwide, a new line of pressed sandwiches has been well received by franchisees, says LaPointe, who is also guiding operators back to fresh prep.

"Over time, the franchisees had started doing a lot of outsourcing. Everything is so competitive today that freshness is crucial," LaPointe says. "We are bringing in fresh chicken and working on on-site preparation. Franchisees are interested, but changing their approach and operations is slow."

Checks average \$7, with unit volumes ranging from \$500,000 to \$3 million. Bernstein plans to open 10 to 15 stores next year and at least 15 annually in 2005 and beyond.

Wall Street Deli ended fiscal '03 with \$23 million in sales and should finish '04 at \$27.5 million. The chain turned profitable in April for the first time in five years. However, some noncash charges

## TURNAROUND ARTIST

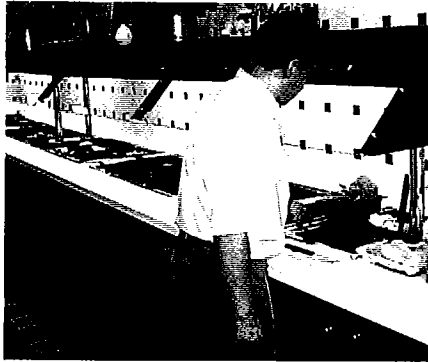
resulted in a loss for fiscal 2003, according to Bernstein.

### On a Roll

The only chain to join the portfolio already profitable was Burritoville. Founded by LaPointe and partner Steve Lynn in 1992, the fast-casual

Mexican chain had 12 units in Manhattan when Bernstein purchased it.

"He saved us from ourselves," LaPointe says. "We were long on product and short on business acumen. Jeff is preserving the product and bringing systems and procedures into place that will really



**Wall Street Deli turned profitable in April for the first time in five years.**

make Burritoville hum."

A commissary supplies most of the units with fresh ingredients daily, enabling a 321-square-foot location to produce \$750,000 in sales, according to LaPointe.

"We're looking for franchisees to sign on for three to five units with one serving as a commissary," Bernstein says. "That will enable us to go into a wide variety of locations and footprints."

Twenty-five to 40 locations are expected in the next 18 months. Burritoville generated \$8 million in sales during fiscal '03, and '04 sales should reach \$12.5 million.

### Eggs in Too Many Baskets?

"Going public is definitely an option once we reach a decent volume of units and sales and have each concept running smoothly," says Bernstein. That goal is likely driving his pursuit of a fifth acquisition, likely by year's end, and possibly a sixth. Such aggressiveness prompts questions about TruFoods' ability to manage a broad portfolio.

"Simultaneous turnarounds of multiple brands—that's a tough one," says Hickok. "Turning a once-struggling brand into a powerhouse is rare. Doing it with four or five would be quite a feat."

"We have a strong, experienced management team, we're adding talent and have financial resources," says Bernstein. "I have no doubt that we can grow each of these brands successfully."

Franchisees are watching closely. "I was concerned that the acquisition of too many brands too quickly would set us back," says Pudge's franchisee Giancaspro. "But I haven't experienced any diminished support or attention. Well, not so far." **CL**