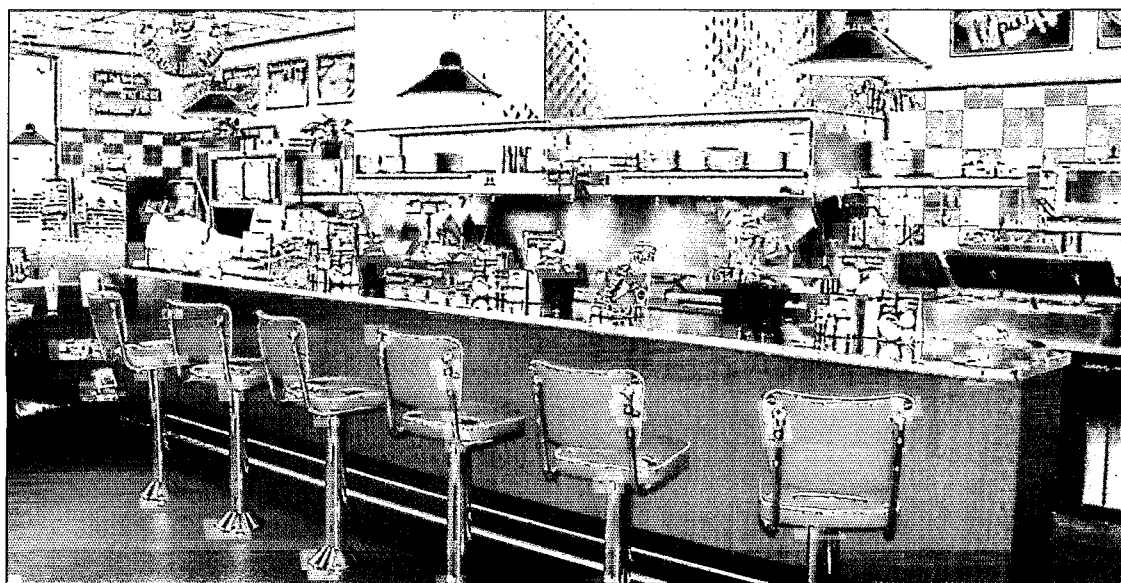


## NEWS



Family-dining chain Huddle House allegedly is charging "hidden fees" for products from the company commissary, according to a lawsuit filed by a group of franchisees.

## Huddle House franchisees file suit

By Jack Hayes

ATLANTA — A group of Huddle House franchisees who operate approximately 100 of the family-dining chain's 360 restaurants are suing the Decatur, Ga.-based franchisor for alleged illegal trade practices.

The claims involve practices of the Huddle House commissary, according to one of at least two lawyers representing plaintiffs in the case.

In confirming the mid-August filing in U.S. District Court here, Ken Rutherford, an attorney with the Oxford, Miss.-based Rutherford Calder law firm, said the suit was being amended to name a substantial number of additional franchisee plaintiffs.

Huddle House president and chief executive Phil Greifeld said the company, whose chain operates in 15 states, had not yet

seen the complaint.

"We haven't been served yet," Greifeld said. "But I know our people and our business intimately and am fully confident that these alleged claims against Huddle House will be dismissed."

One Huddle House operator in Georgia, who requested anonymity, said the suit is seeking damages for "hidden fees" that franchisees are required to pay for commissary products. He did not elaborate on what those fees were or how they were hidden. The franchisee said that 250 Huddle House restaurants would be represented in the amended lawsuit.

Not all franchisees were supporting the litigation, however. Lexington, Ky.-based The Lark Group, parent of Huddle House operator Mountaineer

Restaurants, said it would not be among those pressing claims against the franchisor.

"We're not involved," said Mountaineer Restaurants' chief operating officer, Mike Henslee. "Our relationship with Huddle House has been a good one."

The litigation comes during a key growth juncture for the Huddle House group, according to Greifeld. The company recently entered into a 30-unit development deal with Richmond, Va.-based H2O Hospitality and its parent, Clovelly Corp.

"We'll have opened a minimum of 35 restaurants by the end of 2002," Greifeld said. "We're ready to move into Pennsylvania and West Virginia. And while our store base expands, same-store sales are growing consistently."

## Home Depot builds ties with eateries

By Paul Frumkin

RANDOLPH, MASS. — Dunkin' Donuts is opening full-scale outlets in three Home Depot stores, marking the latest high-profile partnership between a national foodservice operator and a major retailer.

The Randolph, Mass.-based coffee and doughnut specialist debuted its first test unit at a Home Depot in Manchester, Conn., in late August. The company also expects to open outlets later this year in South Attleboro, Mass., and South Plainfield, N.J.

Other prominent foodservice chains that have pacts with U.S. retailers include McDonald's, Nathan's Famous and Little Caesars Pizza. Officials at Tim Hortons, the Canadian-based doughnut-specialty chain owned by Wendy's International, told analysts earlier this year that they would be testing in-store units at Home Depot operations in Canada. Neither Tim Hortons nor Home Depot would comment further.

Greg Demadis, development manager for Dunkin' Donuts, a division of London-based Allied Domecq, said its trio of outlets in the hardware superstores would be evaluated over the next six to 12 months. "After that we'll make a decision whether to do more [with Home Depot]," he said.

While the home-improvement giant operates about 1,500 units across the country and in Canada,

a relatively small number of those locations offer in-store foodservice amenities. Moreover, Home Depot has chosen not to sign an exclusive contract with any single restaurant brand.

"We have deals with perhaps a couple of dozen foodservice operators," said John Simley, a spokesman for the Atlanta-based Home Depot chain.

One of Home Depot's best-known foodservice partners is McDonald's, which operates non-traditional units inside an undisclosed number of the retailer's stores. One source indicated that the Oak Brook, Ill.-based burger giant also might be testing an express unit outside of one Home Depot location.

Westbury, N.Y.-based Nathan's Famous also has a long-standing partnership with the home-center operator to run restaurants in seven stores in the Greater New York and northern New Jersey areas.

Red Gate Concessions Inc., a 2-year-old private contractor based in College Point, N.Y., runs a single modular foodservice unit outside of a Home Depot there. In addition, Red Gate also has an exclusive contract to operate cafes inside of Home Depot's higher-end Expo Design Center superstores. To date, Red Gate has opened 40 Expo Cafes, according to chief executive and president Steve Swartz.

(See HOME, page 85)

## Schlotzsky's upscale tack aims to beef up franchise results, eyes pizza co-branding

By Ron Ruggless

AUSTIN, TEXAS — The 671-unit Schlotzsky's Deli Inc., which blamed the soft economy and decreased marketing for a second-quarter slip in revenue and profits, has taken a trendy turn toward upscale beef in a bid to boost franchisees' "gourmet" appeal and customer traffic.

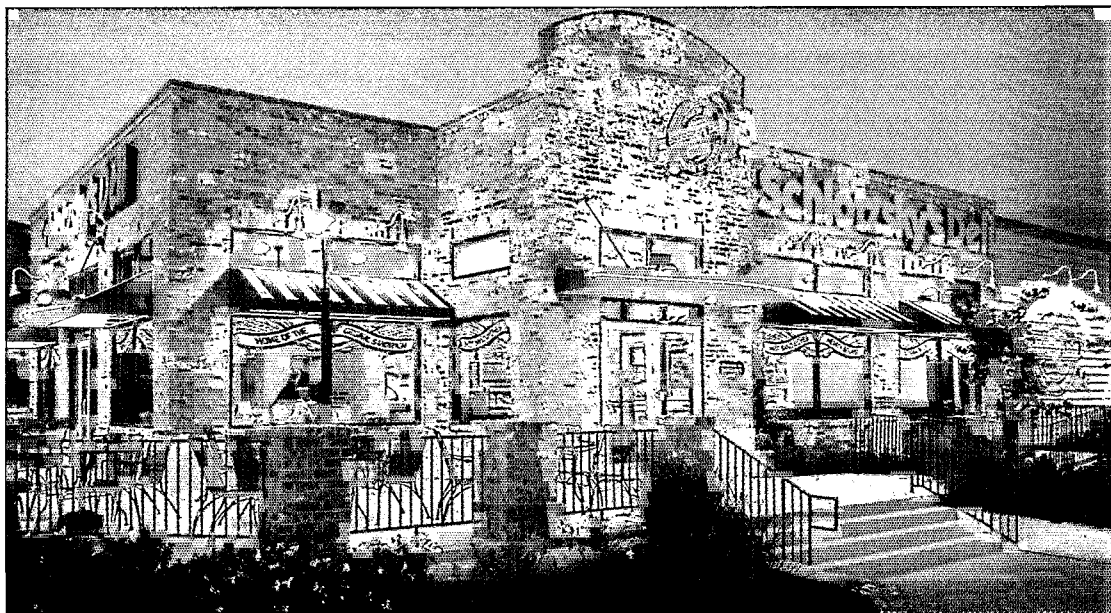
The sandwich chain operator, which is buying back its largest franchised territory and eyeing co-branding with a pizza chain, posted a 1-percent dip in revenue for the second quarter ended June 30, to \$15.9 million. Net earnings for the period fell 35 percent, to \$488,698, as systemwide same-store sales declined 5.5 percent.

"We are solidly profitable,

though affected by the economy, and we continue to invest in building our brand for the future," said John C. Wooley, Schlotzsky's president and chief executive, in releasing the quarterly results.

For the six months ended June 30, the company reported net income of more than \$1.1 million on revenues of \$31.1 million, vs. net income of \$1.3 million on revenues of \$31.4 million in the prior year.

Schlotzsky's said the decline in revenues was due primarily to comparisons to record second-quarter results a year ago and to less national television advertising than in 2001 as well as continued economic weakness in (See SCHLOTZSKY's, page 11)



In a bid to boost franchisees' "gourmet" appeal as well as customer traffic, the 671-unit Schlotzsky's Deli chain has taken a trendy turn and is offering upscale beef sandwiches.

## FINANCE

# Schlotzsky's upscale tack aims to beef up franchise results, eyes pizza co-branding

(Continued from page 4)

some of the chain's key markets. Schlotzsky's Deli operates in 38 states, the District of Columbia and nine foreign nations.

Michael D. Smith, senior restaurant analyst with Fahnstock & Co. of Kansas City, Mo., said: "They are hamstrung. They have an old system. They have a good product, but it appears the system that they

have developed over the years is one with franchisees that don't seem to get with it."

A total of 636 of the chain's units are franchised.

Schlotzsky's said its 35 company-owned restaurants showed positive performance in the quarter. Of those company-operated restaurants in 12 states, 20 were developed for or purchased from franchisees and are available for

sale. The remaining 15 company-owned restaurants represent the chain's leadership group and averaged \$27,754 a week in sales during the second quarter.

"A key part of our strategy is to develop a stronger base of company-owned restaurants to lead and support our franchisees and their growth," Wooley said in a statement. "Just as important, we expect our company-owned

restaurants to continue to deliver directly both to our revenue and profitability growth."

Aimed at helping franchised and company operations, a new marketing tack Schlotzsky's took recently was the launch of a limited-time promotion of registered Angus beef in a new "All American Angus" sandwich. The item has been pitched since July in stylish ads on television.

Once found almost exclusively on the menus of fine-dining restaurants, pedigreed Angus beef has begun to turn up on the menu boards of mainstream quick-service sandwich chains. The 1,500-unit Quizno's Subs of Denver, for example, is offering a Black Angus steak sandwich on rosemary-Parmesan bread.

The up-market sales pitch (See **SCHLOTZSKY'S**, page 85)

EXCH	COMPANY	TICKER SYMBOL	FOR WEEK ENDED 8/23/2002			NET CHANGE IN WEEK	PERCENT CHANGE IN WEEK	P/E RATIO	EARNINGS/SHARE LAST 12 MOS.	52-WEEK HIGH	52-WEEK LOW	MARKET CAPITAL (1,000'S)
	Rest. - NRN Stock Index		HIGH	LOW	CLOSE							
NAS	AFC Enterprises	AFCE	24.50	22.57	22.57	-0.98	-4.16	15	1.46	34.81	18.94	700686
NAS	Avado Brands Inc.	AVDO	0.33	0.27	0.27	-0.04	-12.90	-	-3.49	0.63	0.08	7836
NAS	Applebee's Int'l Inc.	APPB	23.45	22.80	22.89	-0.11	-0.48	18	1.27	27.66	17.33	1281748
NAS	Ark Restaurant Group	ARKR	7.99	7.00	7.75	0.75	10.71	-	-1.70	9.98	5.83	24653
NAS	Back Yard Burgers Inc.	BYBI	8.62	8.03	8.20	0.03	0.37	32	0.26	12.72	1.72	38688
NAS	Benihana Inc.	BNHN	13.00	11.75	13.00	-0.69	-5.04	12	1.11	20.33	8.69	113386
NAS	Big Buck Brewery Inc.	BBUC	0.18	0.16	0.18	0.03	20.00	-	-0.41	1.36	0.13	1095
NAS	Bob Evans Farms	BOBE	28.31	26.41	26.41	-1.34	-4.83	13	2.05	33.30	15.05	942758
NAS	Briazz Inc.	BRZZ	0.56	0.38	0.56	0.02	3.70	-	-0.27	2.00	0.30	3274
NYS	Brinker Int'l	EAT	30.10	29.36	29.36	0.16	0.55	19	1.52	36.00	21.30	2877838
NAS	Buca Inc.	BUCA	8.77	7.90	8.74	2.20	33.64	19	0.45	20.20	5.60	144699
NAS	California Pizza Kitchen Inc.	CPKI	22.01	20.28	22.01	1.64	8.05	-	0.78	26.67	14.22	410156
NYS	CEC Entertainment	CEC	37.50	36.39	36.39	-0.62	-1.68	15	2.41	49.95	31.10	1006547
NAS	Champps Entertainment Inc.	CMPP	9.53	9.04	9.04	-0.09	-0.99	35	0.26	14.45	5.99	110026
NAS	Checkers Drive-In Rest.	CHKR	9.58	9.04	9.25	1.00	12.12	15	0.62	13.99	4.60	112591
NAS	Cheesecake Factory Inc.	CAKE	31.52	31.06	31.06	-0.47	-1.49	35	0.89	43.55	19.92	1572661
NAS	Chicago Pizza and Brewery	CHGO	7.75	7.42	7.45	0.53	7.63	41	0.18	10.45	3.50	142572
NYS	CKE Rests. Inc.	CKR	7.53	6.85	7.53	0.33	4.58	-	-0.69	12.86	4.70	430716
OTC	Cooker Restaurant	CGRT	0.01	0.01	0.01	0.01	120.00	-	-4.04	0.95	0.00	71
NAS	CBRL Group Inc.	CBRL	27.93	26.85	26.94	-0.12	-0.44	24	1.13	34.10	18.66	1414000
NAS	Creative Host Services Inc.	CHST	2.08	1.93	1.99	0.14	7.51	14	0.14	2.22	0.55	15614
NYS	Darden Rests. Inc.	DRI	24.80	23.37	24.80	1.48	6.35	19	1.30	29.77	15.40	2863284
NYS	Dave & Busters Inc.	DAB	13.17	13.05	13.16	0.10	0.77	24	0.56	13.38	5.19	174633
NAS	Denny's Corp.	DNYY	1.06	0.99	0.99	-0.01	-1.00	-	-1.01	1.22	0.45	39868
NAS	Diedrich Coffee Co.	DDRX	2.59	2.35	2.59	-0.01	-0.42	-	-0.54	6.38	1.50	13362
NAS	Eateries Inc.	EATS	2.90	2.70	2.90	0.20	7.41	18	0.16	3.55	1.58	8604
NAS	Famous Dave's of America	DAVE	6.79	6.30	6.30	-0.13	-2.02	9	0.74	10.13	5.40	71726
ASE	Flanigan Ents.	BDL	5.65	5.65	5.65	0.01	0.18	7	0.83	7.20	4.25	11068
NAS	Fresh Choice	SALD	2.04	1.87	2.04	0.06	2.98	20	0.10	3.08	1.83	12110
ASE	Friendly Ice Cream Corp.	FRN	7.55	7.13	7.13	-0.52	-6.80	13	0.57	8.94	1.86	52555
ASE	Frisch's Restaurants	FRS	18.80	18.45	18.50	0.10	0.54	12	1.59	24.80	13.00	90428
ASE	Furr's Restaurant Group	FRG	1.14	0.44	0.50	-0.65	-56.52	-	-2.34	3.00	0.44	4884
NAS	Garden Fresh Rests.	LTUS	11.90	11.60	11.60	-0.40	-3.32	22	0.53	14.50	5.20	66514
NAS	Good Times	GTIM	2.90	2.61	2.68	-0.12	-4.29	54	0.05	5.25	1.50	6035
NAS	Grill Concepts Inc.	GRIL	1.45	1.40	1.40	-0.05	-3.45	20	0.07	2.20	1.10	7752
NAS	Host America	CAFÉ	2.75	2.31	2.65	0.27	11.30	-	0.00	4.34	1.92	5761
NYS	JHOP Corp.	IHP	25.48	25.11	25.11	-0.34	-1.34	13	1.98	36.47	21.03	520154
NYS	J. Alexander's Corp.	JAX	3.00	2.90	3.00	0.10	3.45	21	0.14	3.70	1.70	20346
NYS	Jack in the Box	JBX	29.25	28.10	28.38	-0.38	-1.32	13	2.23	34.40	22.50	1109857

EXCH	COMPANY	TICKER SYMBOL	FOR WEEK ENDED 8/23/2002			NET CHANGE IN WEEK	PERCENT CHANGE IN WEEK	P/E RATIO	EARNINGS/SHARE LAST 12 MOS.	52-WEEK HIGH	52-WEEK LOW	MARKET CAPITAL (1,000'S)
			HIGH	LOW	CLOSE							
NYS	Krispy Kreme	KKD	37.77	36.83	37.29	0.73	2.00	75	0.50	46.90	25.00	2028576
NYS	Landry's Seafood	LNRY	23.70	22.80	23.34	0.52	2.28	17	1.40	29.10	11.83	649669
NAS	Lone Star Steak House	STAR	21.83	20.85	21.14	0.50	2.42	60	0.35	24.81	9.60	464108
NYS	Luby's Cafeterias	LUB	5.50	5.15	5.15	-0.30	-5.50	-	-1.20	9.49	5.00	115530
NAS	Main St. & Main Inc.	MAIN	3.35	3.16	3.16	-0.33	-9.46	-	0.00	6.52	2.81	44455
NAS	Max & Erma's	MAXE	12.97	12.50	12.50	-0.24	-1.88	12	1.08	15.69	9.30	28875
NAS	Mexican Restaurants	CASA	3.93	3.85	3.86	0.05	1.29	12	0.33	4.80	2.00	13224
NYS	McDonald's Corp.	MCD	24.61	24.15	24.15	0.35	1.47	19	1.29	31.00	21.75	30797746
ASE	Meritage Hospitality	MHG	6.25	5.85	6.25	0.30	5.04	63	0.10	6.70	2.03	33300
ASE	Morgan's Foods	MR	3.15	2.90	3.15	0.33	11.70	11	0.28	5.28	0.66	8562
NAS	Nathans Famous Inc.	NATH	3.63	3.31	3.63	0.36	11.01	40	0.09	4.45	3.02	22662
NAS	O'Charley's	CHUX	20.42	19.78	19.78	0.13	0.66	20	1.01	26.00	13.90	373506
NYS	Outback Steakhouse	OSI	31.51	30.69	30.69	0.49	1.62	17	1.80	39.80	23.95	2354076
NAS	Panera Bread Co.	PNRA	34.86	29.30	29.30	-2.25	-7.13	56	0.52	36.80	15.03	841496
NAS	Papa John's International	PZZA	32.28	31.06	31.06	0.56	1.84	14	2.16	35.19	23.38	605950
NAS	Peet's Coffee & Tea, Inc.	PEET	15.13	14.82	15.09	0.19	1.28	54	0.28	19.10	6.02	181367
NAS	P.F. Chang's China Bistro	PFCB	34.32	31.83	31.83	-0.33	-1.03	45	0.71	40.22	16.16	792599
NYS	Piccadilly Cafes	PIC	2.75	2.44	2.45	-0.30	-10.91	5	0.47	4.00	1.16	26311
NAS	Pizza Inn Inc.	PZZI	1.28	1.01	1.28	0.23	21.90	6	0.22	2.16	0.69	12874
NAS	Quality Dining Inc.	QDIN	3.70	3.46	3.70	0.14	3.93	-	-1.23	5.00	1.80	42509
NAS	Rare Hospitality	RARE	27.49	26.93	27.11	0.25	0.93	21	1.29	29.75	14.16	594170
NAS	Red Robin Burgers Inc.	RRGB	12.50	11.94	12.08	0.04	0.33	15	0.82	13.86	11.66	181499
NAS	Roadhouse Grill	GRLQ	0.40	0.40	0.40	0.00	0.00	-	-1.53	1.30	0.11	3884
NAS	Rubio's	RUBO	6.97	6.34	6.97	1.07	18.14	-	-0.62	9.74	2.75	63092
NYS	Ruby Tuesday	RI	20.41	20.10	20.10	0.30	1.52	23	0.88	27.16	13.80	1309716
NAS	Ryans Family Steak Houses	RYAN	13.46	12.95	12.95	-0.13	-0.99	12	1.07	18.80	9.08	566045
NAS	Schlotzsky's Inc.	BUNZ	4.20	3.93	4.20	0.25	6.33	14	0.30	7.02	3.40	30593
NAS	Shell's Seafood Rests.	SHLL	0.80	0.45	0.80	0.23	40.35	6	0.13	0.80	0.13	3563
NAS	Silver Diner Development	SLVR	0.23	0.23	0.23	0.00	0.43	-	-0.10	0.40	0.16	2765
NYS	Worldwide Rest. Concepts	SZ	2.67	2.41	2.63	0.33	14.35	12	0.22	3.23	0.88	71615
NAS	Smith & Wollensky Group	SWRG	3.43	3.23	3.39	0.21	6.60	-	-0.45	7.09	2.75	31710
NAS	Sonic Corp.	SONC	26.97	23.78	24.74	-1.96	-7.34	23	1.07	32.94	17.40	999570
NAS	Star Buffet Inc.	STRZ	2.52	2.51	2.52	0.01	0.36	8	0.31	3.63	2.22	7431
NAS	Starbucks	SBUX	21.81	20.87	21.03	0.21	1.01	40	0.53	25.70	13.47	8166811
NYS	Steak and Shake Co.	SNS	14.74	14.20	14.20	0.01	0.07	17	0.84	15.90	9.30	395001
NAS	Total Entertainment	TENT	10.30	9.35	9.35	-0.65	-6.50	17	0.54	17.25	2.19	95548
NYS	Triarc Companies Inc.	TRY	25.56	25.00	25.00	-1.00	-3.85	-	-0.14	28.73	21.80	512675
NYS	Yum! Brands Inc.	YUM	30.75	30.07	30.53	0.63	2.11	17	1.79	33.17	18.77	9066647
NAS	Tumbleweed Inc.	TWED	1.35	1.31	1.35	0.04	3.05	-	-0.52	2.22	0.80	7987
NYS	Wendys Int'l	WEN	39.98	36.34	36.37	-2.65	-6.79	20	1.78	41.60	25.90	4206663



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More stocks appear on page 12

## FINANCE

# Schlotzsky's upscale tack aims to beef up franchises

(Continued from page 11)

appears to appeal to customers, sandwich operators say.

Karen Lee, vice president for brand management for Schlotzsky's Deli, said, "We've taken the attitude of the more we can give our meats a pedigree, the more confidence our customers will have in consuming them."

The All American Angus promotion began July 1 and will end Sept. 8, and testing was done May 6-June 30. The sandwich, which sells for about \$4.50 in a small version and \$5.60 in a large, features a wheat bun, garlic dressing, mozzarella cheese, fire-roasted green and red bell peppers and onions, fire-roasted tomato-garlic sauce and registered Angus beef from Creekstone Farms of Northfield, Ill.

"We are always looking for ways to improve the quality and Lee said. "A lot of deli concepts are a little bit challenged in keeping the quality of their meat products at the highest level."

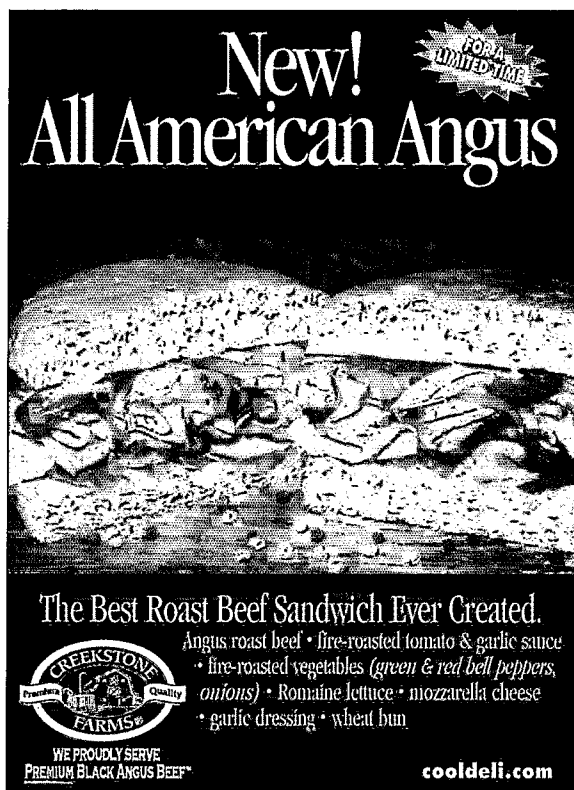
Lee said a scholarly research paper about a year ago suggested that when a restaurant undertakes a co-branding effort with a nationally known food supplier, it achieves a higher level of

credibility with a product.

"We found that to be true," Lee said. In several markets, she said, the All American Angus promotion has doubled beef-sandwich sales. And in one, the increase has been threefold.

Schlotzsky's adding credibility to its recent financial performance, reported that operating income from company-owned restaurants before depreciation and amortization rose 38.9 percent in the second quarter. Revenue from those locations increased 8.1 percent year-over-year.

During the quarter the company acquired two additional restaurants, for a total of five more restaurants than it owned on June 30, 2001. Company-owned restaurants accounted for 52 percent of total revenues during the quarter, compared with 47.6 percent in the same period last year.



Wooley said the company foresees building new Schlotzsky's-owned units in as many as 25 major markets around the United States over the next several years. "These will be our larger restaurant design, which we believe can compete very well in the bakery-

Schlotzsky's "All-American Angus" promotion is designed to emphasize the quality of the chain's meats, said Karen Lee, vice president of brand management.

cafe arena and will be an important part of our franchise-support infrastructure," he said.

Wooley also said Schlotzsky's intended to buy back its largest area developer territory, covering much of Texas and 10 other states in the South and Midwest, by Aug. 30. However, analyst Smith said that buyout "is pretty much going to sap their cash flow for the next five years."

Smith added, "They are in one of those boxes that are hard to get out of."

"The fact that they have that old system really puts them at a disadvantage when they try to build up other franchisees that maybe are more aggressive and more experienced," he said.

However, Wooley said the purchase of its largest area-

developer territory would make co-branding in key markets more attractive and feasible.

"In addition to new restaurants within our system," he said, "co-branding opportunities have the potential to boost future royalty and licensing revenue and contribute to our advertising program." He said the company is interviewing potential co-branding partners.

"We believe that the pizza category offers Schlotzsky's a good opportunity, as our unique sandwiches complement its need for a stronger lunch daypart," Wooley explained. "We are also looking at chains that have minimal geographic conflict. We are particularly interested in the West, Northwest, East or Northeast."

Schlotzsky's also is interested in chains that have a presence in smaller towns in Texas, the Southeast or Midwest where it does not intend to build company-owned restaurants.

Schlotzsky's also said it will adopt, effective January 2003, a policy of expensing stock options offered to senior management. Previously, the company had been reporting the effect of stock options as a note to its financial statements.

## NEWS

## Home Depot builds ties with eateries as chains appear at stores

(Continued from page 4)

"The plan, hopefully, is to build a couple of hundred [Expo Cafes] over the next five to 10 years," Swartz said.

Not all of Home Depot's partnerships have been successful, however. In 1997 Fuddrucker's — which at the time was owned by Unique Casual Restaurants Inc. of Danvers, Mass. — shuttered 12 outlets in Home Depot stores around the country after losing several million dollars. Most of the Fuddrucker's had been open only about a year or two when Unique executives decided to pull the plug, claiming the stores were unprofitable.

Teaming up with major retailers can present a foodservice operator with other unforeseen risks. Kmart's recent Chapter 11 bankruptcy filing could impact negatively Detroit-based Little Caesars Pizza when the discount retailer begins to shutter underperforming stores, as executives have said they would do. Little Caesars, which has partnered with Kmart since the early 1990s, sells its branded products in about

1,500 of the retailer's KCafe foodservice operations.

On the other hand, some alliances have proved to be fruitful for both parties. McDonald's landlord-tenant relationship with Bentonville, Ark.-based Wal-Mart has lasted for more than a decade. Today there are 737 McDonald's units in Wal-Mart stores around the country, according to Sharon Weber, a spokeswoman for Wal-Mart.

"We try to listen to our customers and meet their needs," Weber said. "And McDonald's is very popular with them."

And while Dunkin' Donuts has yet to determine the full scope of its arrangement with Home Depot, executives call it promising. "Home Depot is the No. 1 home-improvement specialty retailer," Demadis said. "It makes a lot of sense to be there. The customer fit is such a good one."

The Dunkin' Donuts units, which will be located in the front of the Home Depot stores, are expected to offer the brand's standard menu of coffees, dough-

nuts, breakfast sandwiches, drinks and bakery products. The footprint for the Manchester outlet encompasses about 220 square feet, although seating will expand that to 400 square feet.

Located near the "pro" section of the store — an area targeting professional builders — the units are expected to cater largely to contractors. They will include about a dozen seats and provide workstations where contractors can lay out their plans. Internet access also will be available.

"About one-third of our revenues are with professional builders and contractors," explained Home Depot's Simley. "Generally, contractors send a couple of people to the store to load up on supplies, and on the way we discovered that they stop at Dunkin' Donuts to pick up coffee and other food for the crews."

"So we decided to experiment and put the Dunkin' Donuts in the stores. It provides a greater convenience for our customers." The three Home Depot stores all generate higher-than-average sales to profes-

sionals, Simley added.

All three test units will be operated by Dunkin' Donuts franchisees. The Manchester, Conn., store will be run by Ana and Mario Medeiros, who operate other stores in the area. Outdoor banners will publicize the presence of in-store units.

Demadis would not comment on the sales potential for the test units. The average Dunkin' Donuts outlet, however, generates about \$744,000 annually.

While Simley called the partnership with Dunkin' Donuts "a good fit," he declined to speculate on future growth potential. "Foodservice is important to [Home Depot], and it's another convenience that we can offer our customers," he said. "But we also have to ask ourselves, 'Are we making better use of the space by collecting rent or using it as selling space?' Often, we're better off using it as selling space."

Swartz of Red Gate Concessions currently operates a "bump out" modular unit in front of the Home Depot in Queens. The trailerlike operation offers a

range of menu options, including pizza, hot dogs, hamburgers and sandwiches. "Home Depot doesn't want to give up the space inside, so we're trying this," he explained.

Commenting on Home Depot's decision to work with many different foodservice operators, Swartz observed that the retailer "is looking to see what works and what doesn't work. Like any other company, they're looking for quality of service and consistency."

Most of Red Gate's business derives from operating in-store Expo Cafes in the retailer's Expo Design Centers, which offers the equivalent of eight to 10 specialty stores under one roof and caterers generally to consumers looking to decorate their homes. The stores tend to be lower-volume operations than the standard Home Depots, and therefore generate less traffic at the cafes. Swartz estimates annual sales at each cafe of \$125,000 to \$150,000.

"Home Depot has been a terrific partner," he said. "They gave us some really big breaks."

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