

Dining boom: Georgia-based chains spreading wings

By [Leon Stafford](#)

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If you've noticed Zaxby's or Moe's Southwest Grill restaurants popping up faster than the weeds in your backyard due to our overabundance of rain lately, your eyes are not deceiving you.

After several years of moderate to almost no growth in the industry, operators of several Georgia-based restaurant chains say they are on an expansion roll this year, with many concepts adding double digit locations. Zaxby's and Moe's alone will open 50 and 65 restaurants this year respectively.

The growth is a sign that the economic recovery, which began to show indications of strength in the automotive and housing industries last year, is moving into other key segments of the American economy. The restaurant industry generates more than \$665 billion in sales annually and employs one in 10 U.S. workers, according to the National Restaurant Association.

"If you provide food that doesn't break the bank, you get very broad appeal," said Pierre Panos, founder of Fresh To Order, a burgeoning fast-casual chain hoping to become the next big thing out of Atlanta.

But not everyone is convinced the restaurant industry has turned the corner. Bob Wagner, president of Atlanta-based NetFinancials, which offers tax and accounting services for the industry, said McDonald's earnings this week should give everyone pause. The world's largest restaurant chain reported Monday that its same-store sales rose 1 percent in the second quarter, far short of Wall Street expectations.

"What the whole industry is fighting for is a piece of the pie that is not expanding rapidly," he said, explaining it's especially hard in places like Georgia where the unemployment rate has trended upward in recent months. "It's not as if our economy is rocking right along, it's not."

The expansion is not limited to the big well-known brands, such as Wing Zone, Krystal or Chick-fil-A. Smaller upstarts, including Uncle Maddio's, Tin Drum and Athen's-based Your Pie pizza chain, which recently received a cash infusion from Atlanta investment firm Georgia Oak Partners, also are spreading their wings with new locations.

In some ways, today's expansions have their roots in 2008's economic meltdown. Unable to grow because of fear of what might come next, companies like Zaxby's focused on support for franchisees, including procurement, distribution and technology.

"We pulled back from investing in new company-owned stores and forced on improving the profitability of franchises and franchisee support, " said Robert Baxley, Zaxby's chief operating officer.

But adding more locations is not universal. Hooters, the iconic Atlanta brand known for its wings and scantily-clad waitresses, saw same-store sales rise in 2012 and again this year. But the increases came after seven consecutive years of stalled growth as the chain transitioned to new ownership and fell behind its peers on food and focus.

Instead of expansion --- the chain will only open two or three stores this year --- the company is focusing on the fundamentals this year, said Dave Henninger, Hooters' chief marketing officer. That includes expanding its menus to include salads, sandwiches and cocktails, revamping its logo and updating the waitresses uniforms. The chain also is testing new store designs and has launched the "Step into Awesome" marketing campaign to refresh its image.

"We're trying to open the doors to people who may have forgotten how fun we are and what we're all about, " Henninger said.

Atlanta chain Huddle House also is growing after struggling with same-store sales during the recession and a change in management. Up until Michael Abt, an Arby's leader, took control late last year, the company had floundered, with growth slowing and top executives leaving, a spokesman said.

To help rekindle interest, Huddle House remodeled its stores to demonstrate its commitment to the chain.

"Restaurants that boast our new contemporary prototype are seeing sales increases over the system average by a minimum of 15 percent, and this is giving prospects a new reason to consider Huddle House, " Jonathan Benjamin, the company's chief development officer.

Still, Leslie Kuban said there is a lot of money going into franchising. In addition to restaurants, investors are flocking to everything from home services franchises to retail operations and pest control businesses, said Kuban, a franchise consultant with FranNet.

The money began flowing last December after investors, who were sitting on the fence because of the 2012 presidential election, jumped into the franchising market. The pace accelerated this year, with Kuban saying she has done as much business in the first six months of 2013 as she did for all of last year.

"Part of that has been pent up demand, " she said. "But people are being cautious. Transaction times have increased, which means people are taking more time to think about it. There are still worries about the economy and the national debt."

Some of the expansion is coming as a natural push into new markets. Athen's-based Zaxby's, for instance, recently signed a deal to open 18 stores in Utah over the next five years. Moe's, which has locations in Russia and Costa Rica, is seeking more international locations.

Others, including Tin Drum, Uncle Maddio's and Fresh To Order, have room to in the southeast, including a new Fresh to Order location at CNN Center.

The type of concept also plays a role in growth, the operators said. Healthier fare, such as smoothie chains, attract franchisees because they have a smaller footprint and generally require fewer workers, the most expensive part of a business.

"We are seeing increases in our same-store sales and franchise sales faster in 2013 than previous years," said Charles Watson, Tropical Smoothie Cafe's vice president of franchise development. "nothing comparable to the highs of 2007 (in terms of franchise sales when SBA financing was easier to get), but moving in the right direction."

Despite the optimistic outlook, business has not returned to pre-recession numbers enjoyed in 2006 and 2007, the operators said. And Paul Damico, Moe's president, said real estate has become a barrier as choice locations become competitive.

Matt Friedman, chief executive officer and founder of Wing Zone, said he is attracting franchisees who want to add to their portfolio. Many of metro Atlanta's established brands have saturated the Southeast and can't grow here, which makes chains like his more attractive.

"Plus, with lending still very tight, banks are looking for investors who have experience franchising," he said.

But there are newcomers. Michael Lonergan of Georgia Oak Partners, said, "If a concept has attractive unit economics and can be replicated in various geographies, it really comes down to having the right team in place to execute the vision. We very much saw this in Your Pie."