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Operators add statistical modeling to site-selection tool box

By Milford Prewitt

Statistical modeling, which can project deaths from smart bombs or calculate the expected spread of AIDS or even the probability of life on other planets, has grown in acceptance among restaurant site pickers, though some still view the process with skepticism.

In its simplest interpretation, statistical modeling in site selection takes numerical factors from actual restaurants and measures them against demographic findings about a targeted neighborhood to forecast a proposed outlet's sales. With that information one can gauge the advisability of a site lease or purchase.

The real-estate departments of such chain conglomerates as Brinker International and AFC Enterprises, which are noted for their "data-mining" techniques, have long made use of numerical modeling to select sites.

And at such users as the Palm Inc., Ruth's Chris Steak House, Lettuce Entertain You Enterprises, Smith & Wollensky and Morton's Restaurant Group, a real-estate broker's call about a grade-A location on Main Street is no longer sufficient on its own to trigger the signing of a lease.

But the restaurant industry wasn't always enamored of the modeling methods that now are being used more widely.

"Restaurants have historically been laggards in the application of new technology," said Keith Webb, vice president of information systems at Ruth's Chris Steak House, "and the fine-dining end of the business has lagged even farther behind.

"Sophisticated tools that were once used only by large companies are now available to companies like ours, and with statistical modeling we believe we found a great competitive tool to better forecast sales at new locations."

Not that long ago Ruth's Chris's approach to site location entailed consulting with a real-estate expert, looking at the site and its traffic patterns, identifying competitors and retailers in the vicinity and hoping that the location was in a growing area, Webb said.

"Now we still do all of that, but we delve into the demographics and the sales potential through statistical modeling,

tying that back to who our customers are and what has been our experience in similar locations in the past," he explained.

However, high-tech number crunching as a way to identify new sites and markets is not for everyone.

"I guess you could call me an old-school kind of guy," said Tom Metzger, former president of Sizzler USA and current president and chief operating officer of Wolfgang Puck Pacific Inc., a new franchise company with the rights to expand Wolfgang Puck Express in the Pacific Northwest.

"I just came back from Seattle looking at potential sites, and I did it the old-fashioned way," Metzger said. "I counted cars going through intersections; I visited the city planning department to see what future construction plans might impede traffic flow; and I assessed the businesses and occupancy rates in the area.

"I think knowing what the city planning department has on tap for an area you are interested in is more important than some math equation," he continued.

Still, proponents say numerical crystal-ball gazing to derive statistical probabilities — with demographic data serving alternately as the denominator, multiplier and variable — is giving many restaurant brands a sharp competitive edge.

Like others who use statistical modeling, Ruth's Chris taps a formula that really is a number of equations based on variables gleaned from the 2000 U.S. Census about the neighborhood of interest. Each variable that Ruth's Chris extracts from the census data is multiplied by a coefficient or base number determined from historical sales patterns from older units.

Webb said that once all of the variables are manipulated in the context of what has been the norm in the chain's history, a site-model formula is created specifically for the location that should predict within a plus-or-minus range of 7 percent what first-year sales would be.

According to Webb, among the neighborhood variables Ruth's Chris studies are the number of homes valued at \$200,000 or more; the number of retail businesses within a mile of the site; the percentage of professionals or executives who live or work in the



area; and the number of nearby restaurants, especially segment competitors.

Deborah Hayden, owner of a new service provider called Quantitative Analysis in Houston, is working with Ruth's Chris in the design and implementation of its statistical models.

She said one reason why demand for her company's services is increasing is that the kind of demographic data retailers and marketers need from the 2000 census has become available only recently.

Although the census — with its broad statistical portrait of America by ethnic groups, sex, income and age — was released more than two years ago, it has only been within the past few months that the Census Bureau has been releasing detailed data about neighborhoods that businesses can use, Hayden said.

And those pieces of data have to be secured for a price from other companies that specialize in funneling tailored census information to marketers and retailers, she added.

Hayden said that once a restaurant company sifts through the "thousands of variables" needed to assess the strength of a new location, "narrowing the window of uncertainty" should come within a plus or minus range of 10 percent on average.

"Basically, we're talking about a service that offers a reliable forecast to make better site-selection decisions," she said. "It's a building block and a tool for growth."

Gerard Centioli, senior partner in Chicago-based Lettuce Entertain You Enterprises and president of the company's ICON start-up arm, which is a Krispy Kreme franchisee for the Pacific Northwest, said he had found that statistical modeling can be helpful when expanding into a new market with a mature concept.

Centioli said after LEYE sold its Maggiano's Little Italy and Corner Bakery concepts to Brinker several years ago and continued running the brands through a management contract, positive results from statistical modeling gave management the confidence to open in Washington, D.C., and Atlanta, new markets at the time.

But he warned that number crunching should not be the only tool used to sign off on a new location.

"I think we are a combo of the old way and the new way," Centioli said. LEYE's tendency, he explained, "is that in the markets that we know best we are far more intuitive about selecting sites. But when we go outside our core markets, we rely more on other data, and that is where these math models come in.

"I don't think we are big fans of statistical modeling, but it certainly has its place," Centioli added.

Prominent real-estate brokers who specialize in foodservice locations said they have mixed feelings about playing with numbers to find good locations.

"Ultimately, it comes down to a human being on site saying, 'This is the spot,'" said Frank Glasgall of Glasgall & Associates, a New York-based brokerage firm that specializes in restaurant real estate. "I don't think it's wise to depend on a computer to tell you that at the corner of First and Main you can make a million dollars."

Paul Fetcher, principal of Great American Brokerage, a realtor that has helped many national chains find sites and negotiate leases, agrees.

"Statistical modeling is valuable, but I don't believe it replaces experience and guts, and I put them on a level playing field of equal strength," Fetcher asserted.

But Mark Katz, a restaurant consultant based in Vernon Hills, Ill., regards statistical modeling as able to do far more than just predict first-year sales volumes.

When applied with good analyses, Katz said, sophisticated mathematics could help operators gain useful intelligence about their competitors, learn more about their customers and even help shape advertising budgets.