

## Reimaging: Checkers/Rally's Makes its Move

Checkers/Rally's tomorrow (9/8) unveils the third of three reimaged locations it plans in Columbus, Ohio. It's one of 10 Ohio's Rally's locations that are being remodeled by year-end in a test of a new exterior design. Operating under both the Checkers and Rally's brands, depending on market, the chain is the 12<sup>th</sup> largest U.S. burger operation, with combined 2011 sales of \$668 million, according to Technomic data. Checkers/Rally's owner, private equity firm Wellspring Capital Management, was recently reported by **Reuters** to be seeking a buyer for the quick-service chain. Jennifer Durham, Checkers/Rally's VP-franchise development and an 11-year company veteran (including stints in accounting and finance before assuming her current post), discussed the situation with **BurgerBusiness.com** and provided strategic context for Checkers/Rally's reimaging program.

**BurgerBusiness:** Bringing to bear all that you've seen of the chain's evolution over the past decade, what do you see when you look at the new design in Columbus?



Before...

**Jennifer Durham:** Oh, I see a lot. First, it contemporizes the brand and makes it more relevant. It looks refreshed. Unfortunately, the restaurants we're doing in Columbus and Cleveland for the Rally's brand didn't have the same timelessness [of design] that I think you see on the Checkers side. So we brought in some of the trade elements consumers have told us are representative of the brand.

**Such as?**

Elements such as neon and stainless steel and the checkerboard. That's what they think of when they think of our brands. So what we did in developing the design for the prototype is we evolved the checkerboard to be less traditional in pattern. It's a unique play on it, so that it's still a checkerboard but it's a modern interpretation.

We've created a new logo that incorporates not just burgers, fries and colas. It says "Crazy Good Food," which speaks to the breadth of our menu. We will always have burgers, fries and cola, but we're also about chicken wings and Cold Creations, our ice cream line, and other products that are crazy good.

**So then the logo change opens the door to future menu expansion, but with the remodel does the menu change?**

No. But we're not limiting ourselves on what we can become, as far as what fits consumer lifestyles. If there's a direction that makes sense for us, we don't want to be locked in narrowly to being just burgers, fries and colas. People sometimes are surprised to learn that we have chicken and more on the menu.



...and after reimagining.

**The double-drive-thru core look hasn't changed?**

No. The double-drive thru is about efficiency and speed for guests. In other parts of the country, we have restaurants that have a single drive thru and we've designed their kitchens to be just as efficient. We kept the double drive thru in these [Ohio] locations because we saw no need to change that.

**What's the investment cost per reimagining?**

We're doing a variety of remodels. The cost ranges from \$70,000 to \$100,000. What we're really focused on is what the return on that investment is. We think we can do remodels more efficiently than some of our competitors. Burger King, Wendy's and McDonald's all have remodel programs but they have a very distinct disadvantage relative to Checkers and Rally's. That is they play to whatever is popular for the times in terms of design. The advantage we have is that from the beginning our buildings always have stood out and we have a look that's a bit retro. We don't have to remodel as frequently because ours is a more timeless design. It doesn't go out of style.

With the reimage we want to be sure we maintain that retro look but update it a bit and create more visual pop. What happens with buildings after 20 years is that they blend into the landscape.

**Beyond cosmetics, have you made changes internally, say, in kitchen layout or equipment?**

What we did in Columbus and ones we reimagined in Toledo and Akron is focus on the outside, on what guests see when they drive by. On the inside, we didn't do a reconfiguration of the kitchen but we did an interior training program for employees. When we're inviting new guests to come in or those who haven't tried us in a while, we're making sure the service is 100% topnotch. We've reevaluated team members to make sure we had the best fit. The idea is that this isn't just a construction project, it's a holistic project with HR and training and marketing aligned.

**Have the reimagined units all been company-owned stores?**

Yes. We have 300 company and about 500 franchised stores. The approach we take is that we test absolutely everything before we push it to our franchise community. Whenever anything is offered to our franchisees, they know we have evaluated it. We are operators; the largest operator within the system. As an operator we're motivated by the same commitment to profitability that they are. We know this remodel investment is significant, so

it has to have a return. We're not asking them to do a remodel just so we can get more royalties; it's about getting a return on the investment.

We've only done company stores: We've got 10 total locations in total to remodel. We did the first in Toledo last year and we'll do a total of nine this year in Toledo, Cleveland Columbus and Cincinnati.

**As an Ohioan originally, I'm pleased to see your dedication to the state.**



Checkers/Rally's stars: Big Buford (left) and Baconzilla

Well, Ohio is a great market. This allows us to test the design in different markets. We're methodical and maniacal about testing. We have a group of control restaurants in each market that haven't been remodeled so we know what [the remodel brings]. If you do the whole market it's hard to isolate how much value you get from a remodeling. What we're seeing is that all the restaurants get a bit of a bump, even those that aren't remodeled. Also, we have a heavy concentration of Rally's in Ohio, which, as I said, didn't have the timelessness of design that Checkers has.

Once we've proven it out, we'll deliver it to our franchise community across the country.

**How large a sales bump did the initial remodel in Toledo experience?**

A fantastic increase. In the first three months, sales were up 35% versus prior year. They've stabilized at about 17% up. So definitely it's a huge success. But that was one location. What we're looking to do is to normalize our results for a group of 10 locations so we can really set the right expectations on what the overall program will deliver.

**Were there things you learned from that first remodel in Toledo that have changed what you've done subsequently?**

Yes, there were. As with every project, you twist some things to make it better. We were trying to value engineer so that we changed it enough to be significant without spending too much that wasn't going to be noticed. The rear of the [Toledo] building is a pure white facade. The original design was too stark; just a big white box. So with the redesigns in Cleveland and Columbus we've got a checkerboard pattern that wraps around the side of the building from the front to the back.



Checkers' new prototype in Mobile, Ala.

There was an interesting architectural element with the Toledo location that was embossed stucco. It's a very labor-intensive process but it creates a look of panels coming together. What consumers have said and what we realized is that unless you get right up on it you don't appreciate the complexity of the embossing process. So since then, in some cases we have included the embossing but in others we decided to skip it. It's a costly step, so we'll evaluate the impact both ways.

Our latest new-restaurant prototype in Mobile, Ala.[see photo], is completely new inside and out. We started with a blank sheet of paper for our freestanding design. One element is a fluted column that protrudes through the "wing" [above a side outside seating area] and looks almost like a straw coming up from a cup. In our reimaged restaurant in Cleveland we have this fluted column. So we've made tweaks here and there to see what ideas we can incorporate while keeping the investment as low as possible for ourselves and out franchisees.

**Can you speak to the report that Checkers/Rally's is for sale?**

Wellspring has been a fabulous partner for us over the past six years and they are exploring a potential sale. At this point our advisors are handling it. We have Harris Williams & Co. and Northpoint Advisors that we've been working with, but there's nothing yet to report.

**The remodeling program is not tied to any potential sale then?**

Our strategies we've developed for new units and remodels were in place before and will continue to be in place after any sale if that happens. With private equity, their time horizon on an investment is usually about three to five years, and we're at the tail end of that [time period]. We've seen a wonderful turnaround at the company over the last several years despite an incredibly challenging economic environment. We continue to think all that we've put in place has been foundational to help us grow into the future.

**A final question: What's your order at Checkers or Rally's?**

My order? I go with either a No. 1, which is a Big Buford combo, without onions, or I love our Baconzilla, a double-patty burger with lots of bacon and wonderful Cheddar cheese sauce. I always have to have fries, of course. We have the best fries. And depending on my calorie intake for the week, our Cold Creations ice cream treats are fantastic.