

## Upscale dining

### Cantina to go national

By Jonathan Maze

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*When an investment group led by John Harkey bought the El Chico Mexican restaurant chain and took it private a decade ago, there was little thought given to the two upscale restaurants known as Cantina Laredo that the chain also owned. They were considered a throw-in. "They simply were one of the complement of Mexican units we purchased," Harkey said. "We did not buy it with the intent to expand it."*

Ten years later, it's safe to say that Harkey no longer considers Cantina Laredo a throw-in. That's because, four years after the purchase, Harkey's Consolidated Restaurants Operations Inc. realized there was a market for Cantina Laredo's menu of upscale Mexican food — a market that was not being filled on a national scale. So the company set about on an aggressive expansion plan to turn it into a nationwide, upscale Mexican chain.

"You tell me this," Harkey said, "Where do you go to have white tablecloth dining with a menu that includes marinated sea bass? Where would you go to get a rib-eye steak, have table-made guacamole or a margarita with fresh lime juice with 15-year aged tequila?"

"The category is not crowded. There are only a handful of competitors in the U.S., and no one with our breadth. It's a darn unique offering."

Over the past six years, Cantina has expanded from two restaurants in Texas to 26, and the company plans to accelerate that growth further, with eight to 10 new units a year. Within a decade, company executives believe their concept will be just as large as the 172-unit upscale Asian chain P.F. Chang's — a chain to which it compares itself often.

Cantina will also be larger than CRO's current flagship, El Chico. "We're going to build a lot of Cantina Laredos," said James Snell, vice president of real estate development. The Texas-based El Chico traces its roots back to the mid-1920s, when Adelaida Cuellar started selling her homemade tamales at a small county fair to help the family make ends meet.



The interior of a Cantina Laredo. The franchise is trying to take advantage of an untapped market for upscale Mexican food.

In 1940, her sons used Cuellar's recipes to open a cafe in Dallas. By the mid-1990s, the casual TexMex chain had nearly 100 units and was publicly traded. Yet it was also struggling, with declining sales and closed units.

In 1998, Harkey formed an investment group that took El Chico private. Harkey liked the chain's predictable cash flows and a strong following.

In subsequent years, CRO bought modest-sized restaurants or started its own concepts, including three small, higher-end steakhouses: Ill Forks; Cool River; and Silver Fox. It tried buying the Mexican chain Chevy's in 2003, then pulled back.

And El Chico has not expanded in the years since CRO took over. At the time the chain had 97 units, 28 of them franchises. Today it has 78 locations, 23 of which are franchises. Company officials insist it will grow in the coming years, mostly through franchising, though the market has been tough on casual dining — including TexMex chains that have to fend off a growing number of fast-casual competitors.

### At a glance

**Cantina Laredo**

**Franchise fee:** \$50,000

**Initial investment:** \$1.7 million to \$3 million

**Royalty:** 5 percent

"El Chico is the Model-T Ford in the stable," Harkey said. "It's been the business that's allowed us to develop the infrastructure and develop the talent that allowed us to have breakout brands. Around El Chico, we did the acquisitions and built the other brands."

Cantina Laredo doesn't face many of the same competitive pressures that El Chico does. While upscale chains have felt the impact of higher food and energy costs, they've managed to keep enough customers to offset those costs. Sales at Cantina have grown 50 percent a year the past six years, and it has caught the eye of franchisees in the Middle East.

Fast-casual chains have not lured away as many customers from restaurants that have \$25-per-person averages at dinnertime. Sales at Cantina have grown 50 percent a year the past six years, company officials said, and it has caught the attention of franchisees in the Middle East.

Opening a Cantina Laredo can cost up to \$3 million, and each unit brings in \$3.5 million to \$4 million a year in sales, Harkey said. "It's a great return," he added.

The chain thus far has focused mostly on corporate stores in the U.S., while franchising exclusively through master franchisees internationally. Harkey said the company is also targeting franchisees in the U.S..

It didn't take painstaking research for CRO to figure out that Cantina was a candidate to become a national chain. Instead, it was a fortuitous inquiry from a franchisee who wanted to see if the company would consider franchising Cantina outside the state of Texas.

The company did, but just as a test case. "It worked beyond our expectations," Harkey said. "And it was just the beginning."

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