

Big enchilada in town

Mexican eateries try smaller markets to fight sales slump

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By KAREN ROBINSON-JACOBS / The Dallas Morning News



When a new branch of El Chico Cafe opened in May in Granbury, the Mexican restaurant served up 7,000 dinners in the first week, a record for the chain. The El Chico Cafe in Granbury set sales records for the chain when it opened in May. The restaurant's parent company sees potential in smaller markets. That amounts to at least one meal for every man, woman and child in the city of 6,814 residents about 40 miles southwest of Fort Worth. Some came back for seconds. The outlet's record sales pace and the rising fortunes of El Chico and several other Mexican casual-dining chains come as good news in a segment working its way out of a sales slump.

Since the early 2000s, consumers have tired of the almost uniform menus of many large sit-down Mexican restaurants, bypassing them for newer quick-service spots. To fight back, some of the largest chains have crafted a strategy that involves a bigger list of entrées and a smaller host community.

Towns such as Granbury in the Brazos River valley; Weatherford, west of Fort Worth; and Maumee, Ohio, near Toledo, are gaining attention from major casual-dining chains that are drawn by cheaper real estate, a dearth of chain competitors and the chance to be the hottest ticket in town.

"In these smaller markets, there are primarily mom-and-pop Tex-Mex operators," said John D. Harkey Jr., 44, chief executive of Dallas-based Consolidated Restaurant Operations Inc., which owns El Chico. "They are in need of a higher-quality operation, and ours fits. In a lot of those markets, we are the nicest restaurant in town."

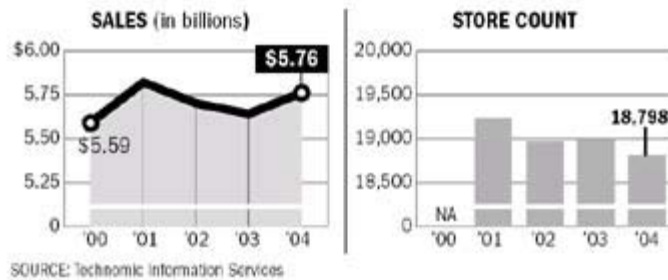
'Micropolitan' sites

Today, 32 of El Chico's 81 locations – or 40 percent – are in what Mr. Harkey calls "micropolitan communities," with 10,000 to 50,000 residents and a "strong trade area." That means they often are within a short drive of a larger city, said Adam Mandel, the company's director of franchising. Mr. Mandel said that as the company expands, "a great majority of new El Chico units will be in micropolitan areas – much better than 50-50."

Other chains are following the same strategy.

BLAND PERFORMANCE

Sales at Mexican sit-down restaurant chains have been fairly flat, and store counts are down, despite continued growth in the overall restaurant industry.



Before year-end, new units of Abuelo's Mexican Food Embassy are to open in Crestview Hills, Ky., population 3,286, about 16 miles from Cincinnati; and Beavercreek, Ohio, population 39,421. They will join Maumee, population 14,472, which opened earlier this year.

"For challenging real estate, such as Manhattan or Chicago's Magnificent Mile, it could take years to get a deal," said James Young, 57, chairman and chief executive of Lubbock-based Food Concepts International, which owns Abuelo's. "We feel that middle America, if they got exposure to our restaurant, the majority of them would be pretty loyal." Given the challenges that the segment has faced, consultants see merit in thinking small.

"I think it's a good strategy because communities that are small, that don't have many or any casual-dining restaurants reward the companies that bring them in," said Lane Cardwell, a Dallas restaurant consultant.

Sector troubles

Since the early 2000s, at least three of the largest Mexican sit-down chains have filed for bankruptcy protection, been sold, closed units or a combination of the three. At the last minute, Consolidated backed away from plans to purchase Chevys Inc., based in Emeryville, Calif., ultimately sending that chain into bankruptcy in 2003.

Onetime market leader Chi-Chi's also sought bankruptcy protection in 2003, a few weeks before more than 660 diners who ate at a Chi-Chi's in Pennsylvania began showing symptoms of hepatitis A. At least three people died.

In May, Avado Brands, the Madison, Ga.-based parent of Don Pablo's Mexican Kitchen, emerged from Chapter 11 bankruptcy as a private company with 10 fewer locations.

Sales in the Mexican casual-dining segment have been flat – plus or minus \$5.7 billion – since 2000, according to Technomic Inc., a restaurant research firm in Chicago.

From 2001 to 2004, the number of Mexican casual outlets dropped 2 percent to about 18,800, Technomic figures show. Meanwhile, overall restaurant sales grew nearly 15 percent to \$415.6 billion from 2001 to 2004, according to the National Restaurant Association. "There are easier segments to make a dollar in," Mr. Cardwell said.

It might seem ironic to see Mexican chains faltering just as the U.S. Hispanic population grows at a breakneck pace. Consultants said some of the wounds were self-inflicted; others stem from marketplace evolution.

Casual-dining chains have seen some incursion from so-called fast-casual restaurants, such as McDonald's Corp.'s Chipotle chain and Wendy's International Inc.'s Baja Fresh, according to Mintel International, a research group. These chains offer higher-end products than typical fast-food fare with quicker service and lower prices than a traditional sit-down spot.

Also, traditional casual-dining chains such as Applebee's Neighborhood Grill & Bar are offering more Mexican entrées, siphoning off even more sales.

Need for variety

But the bigger issue, consultants said, is that some of the largest chains failed to upgrade their menus as consumer tastes became more sophisticated.

"Probably more than any other segment, Mexican seems to have inflicted mind-numbing sameness on the public," Mr. Cardwell said.

Dallas-based Brinker International Inc. last year gave up on efforts to offer consumers a "Tropical, not Typical" Mexican experience in its Cozymel's Coastal Grill. Brinker sold the chain to focus on national leader On the Border Mexican Grill & Cantina.

Abuelo's has picked up that gauntlet, positioning its higher-end diner as a place for everything from Mexican-inspired seafood to steak medallions.

"We're not just enchiladas and burritos," said Mr. Young. The chain, which has 10 of its 25 locations in Texas, boasts a sales average of about \$3.5 million per restaurant, among the highest in the segment.

On the Border had sales of \$332 million in the company's 2004 fiscal year, up nearly 10 percent from the previous year. Average sales per restaurant are about \$3 million. Sales have grown about 11 percent over the last two years, said chain president David Orenstein.

When adding to its 135 outlets, On the Border is looking to fill out areas where it already has a presence, Mr. Orenstein said, with a preference for "second-ring" suburbs such as Mansfield and Weatherford, home to two new branches.

The brand recently completed a systemwide makeover that pumped up to \$135,000 into each company-owned unit to brighten colors and update interiors.

But Mr. Orenstein said the company has largely focused on food innovation to boost sales. "Guests want new news in terms of food offerings," he said, referring to recent dishes such as tequila-flavored fajitas. "In terms of the overall segment in the last year, across many brands, there's a real evolution in the food quality," he said. "We're giving people a reason to come back to Mexican."

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