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Captain D's hopes to draw diners with lower prices

CAPTAIN D'S | Former Huddle House CEO targeting lunch crowd with lower prices, new menu

BY ERIC SNYDER
esnyder@bizjournals.com | 846-4254

Phil Greifeld has a simple formula for navigating the floundering Captain D's Seafood Kitchen back to the fast-food sweet spot: Luring the lunch crowd with cheaper prices and chicken.

Greifeld, who took the helm at Nashville-based Captain D's in mid-September, has plans to grow the chain's average store sales by nearly 40 percent over the next five years. It's an ambitious goal, particularly considering the chain's systemwide sales have declined every year since 2004, according to *QSR Magazine*.

The move also comes after several years of transition within the chain.

Since 2004, the company has had three

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private-equity owners (Florida-based Sun Capital Partners Inc. bought the chain in May) and three CEOs. Greifeld replaces David Head, who recently left to take over O'Charley's Inc.

To right the ship, Greifeld aims to cast a wider net for customers while breaking some of the chain's bad habits.

The first, Greifeld told the *Nashville Business Journal*, is a reliance on raising menu prices, a practice he said was abused over the past three years.

"We had scheduled price increases in 2010. I cancelled them. We had scheduled price increases in 2011. I cancelled them," said Greifeld, who comes to Nashville after serving as Atlanta-based Huddle House's CEO since 1999. During his tenure at Huddle House, Greifeld helped the chain double its revenue.

Captain D's has an average guest check of about \$6.15, Greifeld said. That should come down as Captain D's aims to introduce new menu items at the "lunch price point" in the \$4.99 to \$5.99 range.

The idea is lower prices will attract more guests. But it is not without risk.

"Dropping prices is a very dicey prospect, because it assumes that as you get market (share), you'll be able to hold on to it," said Clark Wolf, of New York-based Clark Wolf Company, a restaurant and hospitality consulting firm.

Dropping prices also can lure existing customers to the menu's lower-priced fare, making it harder to grow revenue, said Dennis Lombardi, executive vice president for food service strategies with Dublin, Ohio-based restaurant design group WD Partners.

Greifeld, however, has aggressive

Phil Greifeld

Title: CEO and president
Age: 50
Hometown: New York City
Previous experience: Huddle House CEO, 1999-2010, chief financial officer, 1995-1999; Douglass & Waters Inc., co-founder and vice president of finance.

By the numbers

Captain D's Seafood Kitchen
Headquarters: Nashville
2010 estimated sales: \$450 million
Owner: Sun Capital Partners Inc., a Florida private equity firm
Locations: 536, including 280 company-owned restaurants
Corporate employees: 4,600, including company-owned restaurants

plans to boost revenue. Across the Captain D's company, the average restaurant makes \$865,000 in annual sales. Greifeld wants to see that figure increase to \$1.2 million in five years.

Based on its 2009 system sales of \$461.2 million, Captain D's is the 44th largest fast-food chain in America, according to *QSR Magazine*. Rival Long John Silver's posted \$700 million in annual sales in 2009, making it 29th on the *QSR* list. Its average restaurant sales lagged behind Captain D's, however, by about \$180,000.

LUNCHES IN BUNCHES

Captain D's faces inherent challenges, Lombardi said. The biggest is drawing the lunch-time crowd, the staple of most quick-service restaurants.

"Seafood has more of a dinner focus to it ... in the minds of the consumers," Lombardi said. In addition to lunch



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Phil Greifeld is the CEO and president of Captain D's Seafood Kitchen.

prices, Greifeld said Captain D's will add more menu offerings that can be served quickly. Said Lombardi, "We're talking sandwiches here, or some variant."

To get quicker, Lombardi said some Captain D's restaurants will need new equipment. All, however, will benefit from a refined menu.

LESS CAN BE MORE

Captain D's will streamline its menu, after an upcoming study identifying which products are the most popular and offer the widest margins, dropping those that aren't pulling their weight.

Initially, Greifeld said Captain D's

will focus on improving the quality of its signature products like fried fish and hush puppies. Going forward, it will then explore new menu options, possibly including a greater emphasis on chicken. Greifeld also has said he'd like to see healthier options added to the menu, currently heavy on fried foods.

Expanding beyond seafood will help Captain D's avoid what Lombardi calls "the veto vote," a challenge facing any restaurant with a specialty cuisine. (The veto vote is the person who rules out a restaurant because he objects to that particular cuisine or had it too recently, as in, "I had Mexican yesterday." The group then compromises on a more general restaurant.)

To grow Captain D's customer base, Greifeld won't just focus on food, but on environment.

"(Our) demographics skew somewhat more senior," Greifeld said. "There's no reason our brand can't appeal to a wide variety of consumer segments."

Greifeld said he'd like to see the Captain D's brand grow more vibrant and energetic and for that to be reflected inside the stores.

GROWING THE FLEET

Of the company's 536 restaurants, about 280 are company-owned with the remainder franchised. Going forward, Greifeld said he plans to expand the company "predominantly" with new franchises, with a focus on in-fill opportunities in existing Captain D's markets concentrated in the Southeast.

In 2011, Greifeld expects Captain D's will add six restaurants, with an average of 15 to 20 new restaurants per year in the following three years.