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Olive Garden gets boost from diners splurging on extras

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NEW YORK (AP) — Olive Garden is weaning diners off two-for-\$25 dinners and luring them to splurge a bit on extras like drinks and desserts.

Those add-ons, a sign that customers might be more willing to open their wallets, helped push sales up for a restaurant chain that limped through the recession and a shift toward "better" fast food personified by Chipotle.

The struggling restaurant chain said Friday quarterly sales edged up 2.2 percent at established locations, marking the first back-to-back quarterly gains in five years. That's partly because diners were ordering more extras like alcohol and desserts and Olive Garden pulled back on discounts.

"We are seeing a little bit healthier of a consumer," said Gene Lee, CEO of Darden Restaurants, which owns Olive Garden and other chains including Yard House and Seasons 52.

The modest bump in sales follows a 0.5 percent increase in the previous quarter, making it the first time since 2010 Olive Garden achieved consecutive quarters of sales gains. Still, it's not necessarily a sign that a turnaround is underway; customer traffic was still down in the period, and the improvement came after a 5.4 percent decline in sales a year ago.

The lift also reflects improvements in restaurant operations, the company said. Late last year, Darden's board was taken over by activist investment fund Starboard Value, which had criticized the company's management of the chain in a scathing 294-page presentation.

Among the complaints was that Olive Garden wasn't selling enough alcohol, particularly for an Italian chain, and that servers were wastefully handing out more breadsticks than necessary.

The sales gains are a respite from struggles among sit-down restaurant chains since the economic downturn, and Olive Garden has conceded in the past it didn't do enough to position itself as a good value to customers.

Another problem has been the growing popularity of fast-casual chains like Chipotle, which offer food that's seen as high-quality but also as cheaper and faster than a meal at Olive Garden or Applebee's.

The improvements aren't confined to Olive Garden. DineEquity, the parent company of Applebee's, also said sales at established restaurants rose 2.8 percent in its most recent quarter. As with Olive Garden, however, the increase was the result of higher spending, while guest counts slipped.

John Gordon, a principal at Pacific Management Consulting Group, said that higher spending could be a sign of improving consumer confidence, but that it could also just reflect more effective selling strategies.

"Certainly one quarter or two quarters a trend does not make," he said. "I want to

see something that's clearer than a 2.2 percent increase."

Brinker International said in January that sales rose 4 percent at established locations for its Chili's chain, boosted by a mix of higher spending and more diners.

Looking ahead, CEO Lee also said he thinks Olive Garden could benefit from pushing more take-out orders, since the chain's food "travels well." It also gives Olive Garden to be more flexible and let people get its food in way that's more convenient for them, without having to go into the restaurants and wait for service. Over time, Lee said he thinks take-out could account for up to 20 percent of sales.

For the quarter, Darden's smaller, pricier restaurant chains also saw gains. The biggest increase was at Eddie V's, a higher-end seafood chain with live jazz, which was up 9.6 percent, while The Capital Grille, an upscale steakhouse chain, saw a 6.1 percent rise.

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