

Chain restaurants battle to get a place at the table in NJ

Bob Watson has his eyes on New Jersey.

And why not? Watson, the chief executive officer of 5 & Diner, a restaurant company, sees the Garden State as ground zero for diners, and diners are what his company is all about.

"I know you're crowded there," Watson said. "You go to Red Bank, you can hit a diner in 10 miles in any direction. ... But the fact of the matter is, we think our diners are a little bit different in that we think they're kind of cool."

So different that Watson hopes to open up 30 franchised diners, which in the 5 & Diner model are vintage 1950s retro, over the next five years around New Jersey, in areas such as Toms River, Freehold, Edison and Somerville. The family restaurants don't serve alcohol.

He's looking for franchisee candidates and locations in New Jersey, a state that many chain restaurants have shied away from over the years.

Sure, you know there's a Ruby Tuesday's, Five Guys or Subway nearby. But as a percentage of its overall restaurant base — everything from delis and pizza joints to casual and fine dining, New Jersey has

among the lowest concentrations of chain restaurants in the United States.

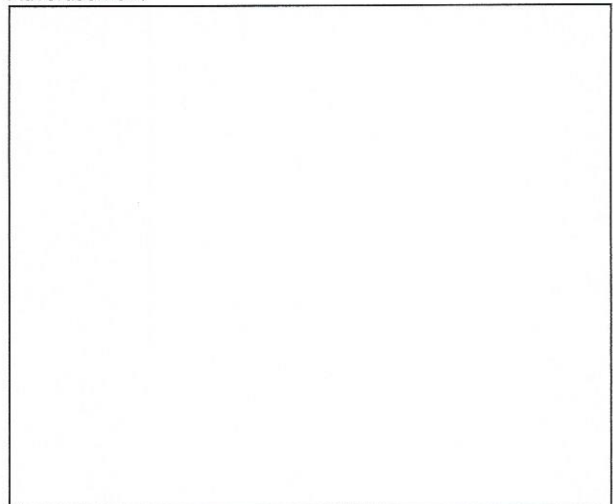
Of the state's 20,339 restaurants, only 4,932, or 24.49 percent, are chains, restaurant companies with 10 or more locations, according to CHD Expert, a food service consulting firm based in Chicago. As a percentage, that's fourth lowest in the U.S. Washington, D.C., is third, New York is second and Vermont is the lowest.

It's different from other parts of the country where chain restaurants followed the construction of the interstate highway system and expanded from the 1950s through the 1970s, said John A. Gordon, principal and founder of Pacific Management Consulting Group in San Diego.

For one thing, New Jersey has a strong base of independent restaurants, including diners and those preparing Italian and ethnic food, Gordon said.

"We all know to get really good Italian food,

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that's where you've got to go, really truthfully," Gordon said.

As land became available for restaurants, local entrepreneurs picked up prime spots and developed a brand and loyalty, Gordon said. Chains such as McDonald's grew. Casual dining restaurants such as Applebee's followed, but they didn't come in as many numbers as they did in other parts of the country, he said.

Costs are a major factor behind that, experts said. Rents and the price tag to build out a restaurant — filling it with a kitchen, tables, chairs and decorations — to get it ready to open are high, said Chuck Lanyard, president of the Goldstein Group, a commercial real estate brokerage in Paramus.

The cost of a liquor license, a scarce commodity in many towns because they are issued based on the size of the local population, can cost \$250,000 to \$1 million.

"When you take all those expenses in, people are less likely to look to open up in Jersey if they can look to open up in other areas where it's less expensive," Lanyard said.

The high costs are an added pressure to stay in business.

Franchisees have to pay a portion of its sales to a chain restaurant's franchisor, said Stacy Gilbert, a partner at Citrin Cooperman in Springfield.

"You really have to have enough margin in the company to be able to do this and yet still walk away with a profit for yourself," Gilbert said. "You can basically be running your business at a loss and still have to pay royalties."

It leaves companies to wait for the right location to open.

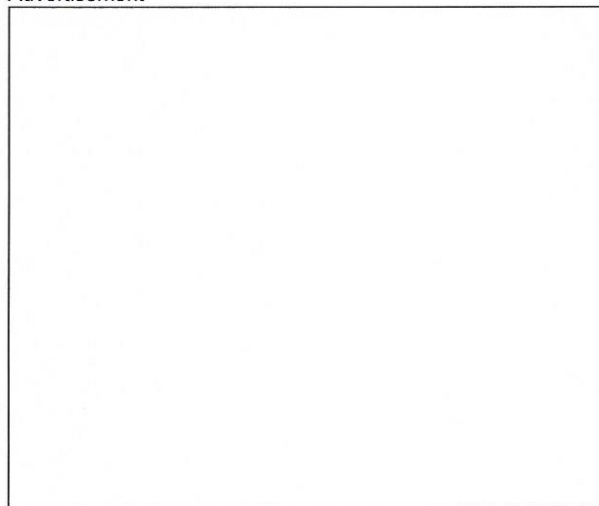
"In New Jersey, there is just a lot of red tape when it comes to developing and getting stores open," said Jack Koumbis, chairman of the New Jersey Restaurant Association. "The cost of it is almost prohibitive."

For example, an Applebee's may cost \$2 million to \$2.5 million to build, said Koumbis, chef and proprietor at The Assembly Steakhouse in Englewood Cliffs.

"If they are not doing \$2 (million) to \$3 million in that location a year, it doesn't make any sense for them to do."

It's expensive to run or open a chain

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restaurant even without the expense of a liquor license.

The Five Guys chain first came to Parsippany in 2007, and it recently relocated from its storefront in the Pathmark Shopping Center in Lake Hiawatha to nearby Route 46 in Arlington Plaza. The restaurant is owned by Genco Development, a partnership of five local guys with exclusive franchise rights to Morris, Passaic and Sussex counties.

The move has given the crew a larger exhibition kitchen. Customers can place their order and walk down the line to watch it being assembled, or grab a table and enjoy unlimited free peanuts while they wait for their number to be called.

"Same Five Guys, new vibe," says Brian McHugh, director of operations for Genco.

Part of the success of the company is the franchises are community-oriented, McHugh said. So when they made the move, "We wanted to make sure the move worked for our team," he said. "Liliana Luna is one of our original crew members, and we found out that now it's a little farther for her to walk to work."

Chip Ohlsson, Genco managing partner, added: "So we bought her a bike. She's one of our key employees and we take care of our crew."

Since the first location, Genco has opened franchises in Denville and Madison, and on March 28, they opened Five Guys' 997th location at 246 Route 10 West in East

Hanover, near Marshall's and Dick's Sporting Goods.

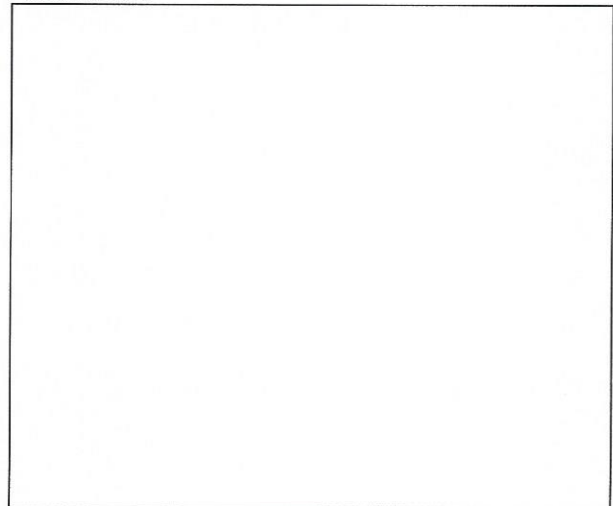
DINING OUT

There are some chains making some moves in New Jersey, picking locations around the Garden State.

Among them are:

- Bonefish Grill
- Moe's Southwest Grill
- Joe's Crab Shack
- Panchero's Mexican Grill
- Smashburger
- Red Mango

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