

# New chain with old faces smashes onto budding 'better-burger' scene

By DINA BERTA

**DENVER (Sept. 08, 2008)** —With a \$15 million war chest of invested capital and plenty of raw, half-pound balls of Certified Angus beef, a local private-equity firm founded by Quiznos' former chairman and chief executive is smashing its way into the burgeoning "better-burger" segment.



**Smashburger**, now with five units in metropolitan Denver, features third-pound and half-pound Angus burgers that are smashed on the grill, searing the meat and supposedly locking in the juices. With such other hallmarks as Häagen-Dazs shakes and guidance by several noted **McDonald's** marketing and R&D veterans, the concept's creators intend to turn Smashburger into a 500-unit national chain.

"There is no national player in this better-burger category, and burgers are a \$60 billion category," said David Prokupek, managing partner and chief investment officer of Consumer Capital Partners.

Denver-based Smashburger has the backing of a local private-equity firm co-founded by Rick Schaden, the former CEO of Quiznos Sub.

CCP was started by Rick Schaden, who grew the Denver-based Quiznos sub sandwich chain from 18 franchised branches to

more than 5,000 internationally. He recently stepped down as Quiznos' chairman, but remains on its board. Schaden is a co-founder and co-chairman of CCP with his father, Richard F. Schaden. The firm invests in and develops multi-unit retail businesses, primarily in restaurant, liquor, food and leisure industries.

Market research and consumer surveys led to the development of Smashburger, said Tom Ryan, who joined CCP as managing partner and chief concept officer after holding the same CCO role at **McDonald's Corp.**, where his credits included McGriddles, the Big 'n Tasty burger and the Dollar Menu. In other chain tenures, Ryan also was instrumental in such rollouts as Pizza Hut's Stuffed **Crust** Pizza and, most recently, Quiznos' \$2 Sammies flatbread sandwiches.

"We're pretty research-oriented in the development side," said Ryan, who shares a role on CCP's partner roster with another big-name McDonald's veteran, Andrew Selvaggio, who was that chain's executive chef and culinary R&D boss for a decade.

"The whole idea behind Smashburger is to create a place where people can go to have a better experience and a better burger," Ryan said.

Customers can order signature burgers and chicken sandwiches or pick a type of bun and toppings to create their own burger or sandwich. Smashburger's simple menu also offers salads, French fries and veggie frites—flash-fired asparagus, carrots and green beans that are cut like French fries.

The burgers are priced from \$4.99 to \$6.99, and the average per-person check is around \$8 or \$9, putting Smashburger in a niche between quick-service burger chains like McDonald's and casual-dining places like **Red Robin Gourmet Burgers**. The so-called better-burger segment still has room for growth, despite increasing numbers of competitors, according to industry observers and Smashburger's founders.

About 10 to 15 different high-quality burger concepts have emerged since Fuddruckers created the fast-casual burger category in the 1990s, said Darren Tristano, executive vice president of Technomic Inc., a Chicago-based research firm.

Among the competitors Smashburger will face as it expands are **Five Guys Burgers and Fries**, of Arlington, Va.; the Counter, of Culver City, Calif.; The Habit, of Santa Barbara, Calif.; and **Back Yard Burgers**, of Nashville, Tenn., as well as Culver's in the Midwest. Also, celebrity chef-restaurateur Bobby Flay recently obtained \$5 million in financing for his new Bobby's Burger Palace chain concept.

Smashburger's brain trust at CCP so far has expanded with relative ease, but that may not always be the case.

"I'm sure they can have a winning concentration in Denver or Colorado," Tristano said, "but they are going to have a lot of competition ultimately."

Smashburger has two more units under construction and is working on deals to reach about a dozen stores by the end of the year, including locations in Houston and Dallas and in the Midwest.

The basic plan for Smashburger is to grow corporately and with joint-venture partners who are multi-unit operators, CCP's Prokupek said.

The chain's five units, which vary in size from 1,600 to 2,000 square feet, do about \$1.1 million in annual sales. An investment can range from \$280,000 to \$650,000 per unit, depending on size and location, but Smashburger's executives expect the average investment to be around \$400,000, Prokupek said.

Smashburger must find ways to differentiate itself from other better-burger operators, said food-service consultant Dennis Lombardi, a principal with WD Partners in Columbus, Ohio.



Marketing veteran Tom Ryan, now concept chief of Consumer Capital Partners, said Smashburger's cooking method would set it apart from "better-burger" competitors.



"They've got to create the brand in such a way that it will be able to face close-in competitors when that occurs," he said.

The on-griddle "smashing" cooking technique helps Smashburger distinguish itself from the hamburger pack, Ryan said.

"The 10-second smash sets up beautiful searing and a caramelized flavor," he said. "It keeps the moisture in the burger from the bottom up. It's very juicy. The fat melts inside and is served on a toasted bun. It's quite special."

Like most fast-casual concepts, Smashburger is attracting college-educated, above-average-income customers, said Smashburger president Scott Crane.

"Our business is 57 percent lunch and 40 percent dinner," he said. "We turn the dining room three times during peak periods."

Crane, who joined Smashburger in May, had been executive vice president of Fugate Enterprises, the Wichita, Kan.-based operator of more than 300 franchised restaurants, including **Taco Bell**, **Pizza Hut** and **Sonic** branches, as well as Blockbuster Video stores. The experience of Consumer Capital Partners' managing partners and the firm's in-depth research attracted him to the Smashburger concept, he said.

“We have a great culture here,” Crane said. “We have a great plan and great product that will be national sooner than later.”