

Hot Dog!

BY MICHAEL W. NUCKOLLS



From restaurants to branded products, Nathan's Famous is taking its hot dogs to the masses.

The field of players in the quick-serve hot dog market could rightly be characterized as scattered. Outside of local and regional chains, the hot dog appears mostly as an alternative to burgers on some national quick-serve chains' menus. Dairy Queen and Sonic have always been major sellers of hot dogs, but neither concept is built around the frankfurter. The hot dog, still, has established a solid foothold as a staple of American sports and entertainment venues and back-yard parties everywhere. It is in those places that a resurgent Nathan's Famous is making its mark.

Nathan's Famous opened in 1916 as a hot dog stand on Coney Island in New York. The company focused on restaurants for most of its long history, but, in the late '90s, Nathan's introduced its Branded Product Program to allow other foodservice retailers to sell Nathan's dogs. The company realized that although there is a market for hot

dog restaurants, the market for branded hot dogs is even bigger. Today, the company's goal is simple: If someone is eating a hot dog anywhere, at any time, it should be a Nathan's.

To that end, Nathan's offers its products at thousands of locations through such high-profile operations as vending company Canteen Corporation, Circle K and Exxon/Mobil convenience stores, select Subway restaurants, and Johnny Rockets. Combined with its retail program to grocery and club stores, Nathan's is now the number one premium all-beef hot dog sold in the United States.

After Nathan's reported record sales and earnings in all of its profit centers for fiscal year 2005, QSR magazine spoke with Nathan's president and COO Wayne Norbitz about his company's efforts to cover the entire hot dog market.

What is your take on how fiscal year 2005 played out?

We have, for the past recent years, been focused on brand marketing and points of distribution strategy. We've attempted to expose the Nathan's brand to as many customers as possible over a wide geography over a broad spectrum of business environments and sell Nathan's products in many different ways.

What we are doing today is continuing to operate our restaurant system—and there are about 365 restaurants in the system today—

and we're continuing to expand our restaurant system. For the year that ended March 27, 2005, we opened 28 new Nathan's restaurants. Our restaurant system, which is comprised of company-owned as well as franchise restaurants, is just one way that we expose the Nathan's brand and implement that points of distribution strategy.

We've developed other ways to advertise Nathan's and sell Nathan's products. We have a program in place in which others in the foodservice industry advertise Nathan's and sell Nathan's products in their own foodservice environment. Today, there are over 6,000 locations featuring Nathan's hot dogs as part of their menu.

We also have a licensing program in place, where we license the right to the name Nathan's to a company that manufactures hot dogs and sells them to retail, primarily to supermar-



kets, groceries, and club stores throughout the United States. Today, our products are being sold in over 7,000 locations such as that.

Between the Branded Product Program and the restaurants and the retail program, we are doing business today in 46 states and the District of Columbia and 13 countries. Clearly, Nathan's has been transformed from a small New York regional brand to a national brand. That's what we've been concentrating on. We did not want to be a company that just operated quick-service restaurants.

When you are selling to foodservice customers, do you require them to use Nathan's branding in presenting your product?

Yes. Of course, the franchise program is a traditional franchise-type program, where our franchisees are allowed to use the Nathan's brand and the Nathan's systems. Everything they do has to include an approved Nathan's product and utilize Nathan's systems, and that is governed by a franchise agreement.

In the Branded Product Program, what we are doing is selling our hot dogs to a third party in the foodservice business, and that party has to use our logos, our trade dress, and our approved product in connection with the sale of Nathan's. We support that with a more limited marketing and training focus.

You've mentioned getting the Nathan's brand out nationwide. What kind of spillover effect have you seen from the foodservice sales of Nathan's into your ability to put in retail locations?

What we have witnessed—and I know that this is not always the case—is that the more expansion and the more business we do with the Branded Product Program, the more business we wind up doing at retail and vice versa. Both programs support each other, and generally, the more we advertise the brand, the better it helps both programs. What we find is that when somebody is in an airport or in a university or in a mall and they have an eating decision to make, they might decide to go to a Nathan's rather than a Burger King. Or they might decide to have a Nathan's hot dog when they're eating at Johnny Rockets rather than a hamburger. But when they're in Johnny Rockets or they're in a mall or an airport, they don't make the decision, "Let's not eat here, but let's go to retail and take food home." It's a different kind of eating occasion. The same thing is true when they're shopping at supermarkets. At that point, a person is making the decision of what hot dog they should buy to bring to my house to have a barbecue. But



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they're not saying, "Instead of bringing the hot dog to my house, I'm better off going to a Nathan's restaurant." So I think you have two different types of occasions going on, and people are not making the choice of doing one and not the other.

Do you think consumers who only have access to Nathan's in a grocery or a foodservice setting associate the name with the restaurant history?

I think it's a mixed bag. I think certain people that experience Nathan's through the Branded Product Program or through retail only associate Nathan's with the hot dog product. Certain people associate Nathan's with the hot dog product and Coney Island. And then certain people associate Nathan's with the history and tradition of our restaurant experience. What we try to do is wherever we are distributing products and when we market Nathan's, we try to tell the full story. We try to tell people that we are well-established since 1916, and we are the original Coney Island hot dog. We try to talk about that treasured tradition that Nathan's represents.

Clearly it's harder to do when you have a single point of distribution with a retail package than when you establish an entire restaurant.

Going forward, how much do you expect to rely on foodservice sales as a growth mechanism?

For the past year that ended March 2005, we have realized enhanced profitability from all of our revenue centers, not just the Branded Product Program. The Branded Product Program had the largest percentage increase in top-line sales, but actually we've had top-line and bottom-line profitability increases from all of our revenue centers. Quite frankly, I don't see any differences in that trend in the current year. Last year, for the first time, we became the number one selling premium all-beef hot dog in the United States, and today we are the third largest all-beef hot dog in the United States. So clearly, I think our company has become bigger and more people know about us, and I think that's helping us expand.

Can you tell me what same-store sales were last year and what you expect going forward?

We don't disclose same-store sales on the retail side. I would tell you that our total sales increase at retail was comprised of two factors: One is expansion into a few new markets and new products, but moreover, it included same-store sales growth. On an overall basis, our sales at retail have, year-over-year, increased for the past six years.

I'm guessing you get a lot of mileage out of the Nathan's Hot Dog Eating contest.

It's huge. This year, for the second straight year, ESPN did a live one-hour show showing the July 4 hot dog eating contest on Coney Island. Leading up to that, we did 17 other hot dog eating contests throughout the country, and it gets an enormous amount of press.

What other marketing are you doing for the restaurants and the Branded Product Program?

The majority of marketing that's done for the Branded Product Program as well as the restaurants is in-store, local, grass-roots marketing. What we've done with the restaurants is expansion not by building traditional quick-serve restaurants on traditional types of competitive environments, like on a major road or in-line in a city, but rather we have downsized the Nathan's concept, and we've expanded by placing Nathan's in captive markets. So you'll see a lot of Nathan's outlets in malls or in hotels or airports or universities, those type of captive markets. And there you are living off a population that already exists. In other words, if you have a Nathan's in an airport,

you're living off the airport population. So, to support those restaurants or Branded Product Program accounts, we concentrate on advertising in the restaurants rather than trying to advertise outside to bring the people there. We do a lot of new product development, and we do a lot of in-store specials or limited-time offers or programs, such as our check-building programs, etcetera.

One type of marketing that is interesting, I think, is that for the first time this year, we have done cooperative marketing between the restaurants and the retail segment. For exam-

ple, we ran FSI's (free-standing inserts) in southern Florida and New York. Each time we do it, there's a distribution of over seven million. The top of the FSI will be a branding message about Nathan's, and the bottom will be an incentivized offer for the consumer to go to the restaurant and take advantage of a certain offer but also go to retail and take advantage of buying a package of Nathan's hot dogs.

We've done that with hot dogs, but we've also done that with French fries. About 18 months ago, we introduced Nathan's French fries into supermarkets in the New York met-

ropolitan area. We signed a licensing agreement with ConAgra, and they are manufacturing our French fries, and that's been very successful for us.

Does that mean there is a movement toward branding some other Nathan's products for the program?

At the current time, there's a wide variety of hot dog products. We have Nathan's French fries. In July, we introduced Nathan's hamburger and hot dog rolls. We have in place an agreement for Nathan's mustard and salsa and another agreement for Nathan's pickles. We have an agreement in place where we're selling Nathan's bratwurst and breakfast sausages. We have an agreement in place for Nathan's apparel, like T-shirts, hats, and jackets. We are looking to capitalize on the equity that we've established with the Nathan's name and the kind of cultish appeal that goes along with Nathan's and expanding our distribution and retail.

Are you concerned at all about diluting the Nathan's brand by introducing products like mustard and pickles?

No. If we are true to the fact that what the brand stands for first and foremost is quality, and if we can produce all products under the Nathan's brand at the very high end of the quality spectrum, we think that we will not be diluting the brand. We think more points of distribution and more advertising of the Nathan's brand helps each business.

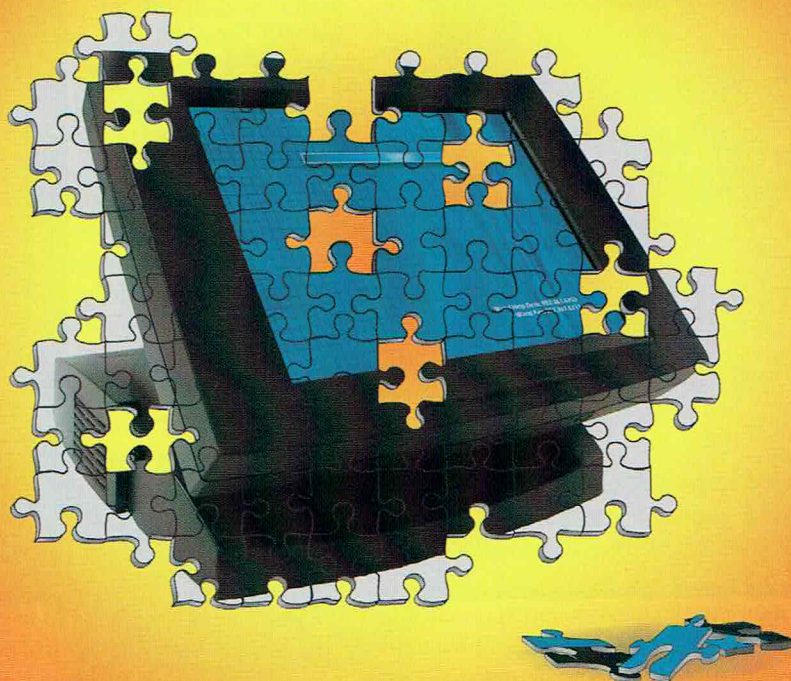
Are you or are you planning to sell Nathan's packaged products, like your hot dogs, buns, or mustard, through the restaurants?

Just on a limited basis. Where we think it has a place is in restaurants that are catering toward people that are tourists or people that are traveling, such as Nathan's restaurants in airports and situations like that. By and large, that's not going to be a focus of ours.

As far as the other concepts—Kenny Rogers and Miami Subs—do you plan on doing any branded products with those as well?

No. Kenny Rogers is a system that we bought out of bankruptcy. The primary use of Kenny Rogers to us is that in a majority of Nathan's restaurants and Miami subs restaurants we introduced a chicken sandwich menu and branded it as Kenny Rogers. So we used Kenny Rogers within our systems as a branded chicken concept. Secondly, we are continuing to open Kenny Rogers restaurants through a master franchise agreement in Asia. Today there are well over 100 Kenny Rogers restaurants in Asia. Miami Subs is a

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regional quick-service restaurant chain primarily located in southern Florida, and that's run as a separate entity of Nathan's Famous.

The Kenny Rogers international franchise is the biggest growth mechanism for that concept.

Correct. Also, in the last 18 months, we've opened nine Nathan's restaurants in Japan, and that's an initiative which is continuing. We're focused on Japan as the primary country that we're developing, but we've opened three Nathan's in Kuwait—two on Army bases and one in an amusement park—and we plan to open a couple more in Kuwait. We are

having discussions with other potential master franchisees for other countries right now having to do with the Nathan's brand.

I read that skyrocketing beef costs have hit you. Can you give us an idea of how beef prices are contributing to your costs and what kind of price increases you might expect?

The way the beef cost increases affect us the most is through the Branded Product Program because we are basically selling our hot dogs to others. Over a two-year period, I would say beef costs have gone up 40 percent. They were at a high a month or two ago, and since then

they've come down slightly. Over the last two years, we have increased selling prices of our hot dog products in the Branded Product Program in sync with how everyone has increased prices. I would think proportionately we have probably increased our prices much less than the cost increases. So we're not able to pass through all of the increases that we've incurred, and, quite honestly, that's why we feel very good about the success we've had in the Branded Product Program, because we've had to overcome a reduction in margin.

Can you give me an overview of where Nathan's restaurant franchising will be headed over the next 12-18 months?

Last year, as I said, we opened 28 new Nathan's restaurants. I would think that generally the scope of that kind of development of new Nathan's restaurants is going to continue. I also believe that last year, as in all other years prior, we've seen increases in the sales of the Branded Product Program, and I would anticipate that's going to continue along with increases on the retail side of our business. So I am looking forward to seeing sales increases in each of these revenue centers.

Would you characterize Nathan's as a restaurant company or some other food-related entity?

Our strategy, which has been very successful, has been to concentrate on marketing the brand Nathan's and implementing a points-of-distribution strategy. The restaurants that we franchise and that we operate are just one way that we distribute our products. We also distribute our products to the Branded Product Program, where we allow others in the food-service industry to market the Nathan's name and sell Nathan's hot dogs. In that situation, we sell them the hot dogs they use, and we derive a profit from the sale. The other thing we do is we license a manufacturer to sell packaged Nathan's hot dogs in supermarkets and club stores.

So there are many ways through company restaurants, through franchise restaurants, through the Branded Product Program, and through retail distribution that we are distributing our products. The restaurant business is where our roots are. That's where we started. That's what we were all about for most of our history. But today, we really are much more diverse in the types of business that we do.

QSR finance columnist **Michael Nuckolls** talked to Popeyes CEO and president Ken Keymer in October. Contact him at mike@qsr magazine.com.

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