Arlene Spiegel on Business Transformation

How to Avoid Fusion Confusion

WALKING INTO SOME OF TODAY'S HOT CON-cepts, consumers might ask themselves, "Is it a retail store? Is it a restaurant?" Ultimately, though, their thinking turns to: "Who cares, so long as it meets my needs and I'm enjoying myself."

Meeting consumers' needs has never been more challenging. Today's time-starved, experience-seeking public demands more than products and services. It demands solutions. Many retailers and foodservice operators are now looking beyond the scope of their current offerings, seeking new ways to supply such solutions to their patrons. Fusing retail and restaurant components into one concept satisfies multiple customer needs, which drives loyalty and greater profitability.

Restaurants that successfully satisfy their patrons' desire for high-quality, convenient take-out meals that echo the dine-in experience immediately gain a competitive edge. Retailers who add relevant foodservice components to their offerings are enhancing the shopping experience with positive financial results.

Brands play an integral role in the success of these "fusion" initiatives, because consumers are willing to experiment with extensions of a trusted brand name. Costco has put its brand name on telecommunications products, film developing services and even gasoline. In doing so, the warehouse club-retailer has increased customer loyalty while developing new revenue streams.

Fusion concepts can take several forms. One model is a traditional retail store, such as Barnes & Noble Booksellers or supermarkets like Albertson's and Publix, adding foodservice components, typically in the form of cafés offering sandwiches, salads and baked goods.

Another strategy is launching signature restaurant products into retail sales. Some restaurants successfully sell their products in their own locations. The Marie Callender chain of family restaurants does big business selling signature baked goods right in the restaurants.

Others look to market their products through bricks-and-mortar establishments or via the Web. Boston Market now sells its signature chicken and side dishes in grocers' freezers. Dunkin' Donuts coffee beans can be purchased through the company's Web site.

Impromptu Gourmet is a new cyber-retailer. The site sells prepared meals developed by star chefs like Jean-Georges Vongerichten and David Burke. Impromptu Gourmet's complete dinners for two, including cooking instructions, can be found in boutique grocers, as well.

Finally, there's the "anywhere, anytime" model. The Manhattan institution known as Dean & DeLuca has evolved into a market for staple grocery items, as well as other products and services. In addition, fans can order from catalogs. The company's Web site, however, is the fastest-growing source of revenue.

Other companies are applying the fusion model from the get-go, with mixed results. Location appears to be a determining factor. Eatzi's, the collaboration between Phil Romano and Brinker International, has proved successful in Dallas and a few other markets, but failed in New York City and nearby Long Island. Offering a variety of prepared meals, produce, wines and grocery items requires a fairly affluent customer base. Also needed is a day-long traffic flow to cover the costs associated with its fresh-prep model.

Restaurant owners looking to package their items for sale – at their own locations or other retail outlets – often are shocked at the costs of limited production runs.

Although the profit opportunities of these fusion models are compelling, the potential liabilities are equally important to consider. Too often, the line between retail and restaurant isn't just being blurred, it's being muddied. Consumers are sometimes confused and left wondering, "Will the operator have the products or service I'm accustomed to?" and "Will the products/service be of the same quality I've come to expect?" No operators want those questions answered in the negative; so, they need to ask themselves some big questions.

First, consider whether you have the physical space to add another component to your concept. Also, ask yourself, "Should the operation occupy a separate space or be integrated into the overall concept?" Look at the existing facility and consider all the implications of this added venue: traffic flow, aesthetics and operational issues such as proper venting for foodservice equipment or inventory space necessary for retail products.

Next, confirm that a market exists for the proposed brand extension. Has your existing customer base expressed interest, or does the surrounding demographic support such an expansion of the concept?

WORKING WITH MANUFACTURERS

It's also important to examine the costs involved. Restaurant operators looking to package their signature items for retail sale often are shocked at the high costs of limited production runs. Producers are becoming more responsive to the needs of restaurateurs looking to market their products at retail, however. Look carefully at the products you plan to market, as well. The best bet is to identify a category or product line where you can achieve critical mass to justify larger production runs, driving down costs and driving up profits.

Perhaps the biggest issue to consider is that of core competencies. Adding a retail component to a restaurant concept means adopting retail financial models, which involve purchasing, operations and labor formulas that are light years away from those involved in the foodservice model. The same is true for retailers incorporating foodservice elements into their concepts – a totally new business mindset and financial model must be adopted. Making the leap from restaurateur to retailer and vice versa has tripped up many an operator. But when companies recognize what they don't know and turn to the experts, success is possible.

Consider the 7-Eleven strategy. Since making a commitment to fresh foods nearly a decade ago, the convenience store giant has created an entire division staffed by foodservice experts to handle purchasing, product development, merchandising and marketing. The result? According to Des Hague, director of foodservice (shown at left), fresh foods – sandwiches, baked goods and proprietary items – now generate 13 percent of the company's sales, up five points from just a few years ago. The c-store chain now competes effectively with leading quick-service restaurants for on-the-go customers.

Another option is outsourcing the new business component. Hiring a competent distributor to handle marketing, merchandising and distribution of a restaurant's branded product enables the restaurant operator to maintain focus on the core business. Retailers who lease space to experienced foodservice operators can also achieve the greater customer satisfaction and loyalty that generates higher sales and revenue, without distracting themselves from their first priority of running their retail store.

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